

A STUDY ON
THE OVERSEAS INVESTMENT
IN THE MANUFACTURING INDUSTRY OF HONG KONG

by

NGAI LUNG MUI, MARY 倪龍妹
SO CHEUK WAI, PHILIP 蘇卓威


RESEARCH REPORT

Presented to
The Graduate School

In Partial Fulfilment
of the Requirements for the Degree of
MASTER OF BUSINESS ADMINISTRATION

TWO-YEAR MBA PROGRAMME
THE CHINESE UNIVERSITY OF HONG KONG

May 1988



PROFESSOR K.C. MUN
Advisor

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ABSTRACT

Ever since the establishment of Hong Kong as a fishing port, Hong Kong is inseparable from overseas investment. The commitments of the overseas investors to Hong Kong's manufacturing industries played a significant role in the economic development of Hong Kong. This study will try to analyse the importance, the motives, the problems and the future planning of overseas investment in Hong Kong.

Recommendations will be made to both the Hong Kong Government and the overseas investors on how to cope with the anticipated threats in future.

The study mainly consists of two parts. The first is desk research on published articles and statistics. The second part is field studies which include some in-depth personal interviews with government officials and overseas manufacturers. Besides, a questionnaire survey targeted to 413 overseas investors is used to supplement the study.

After analysing the data from the government survey with 541 establishments and the questionnaire survey with 51 respondents, the writers have the following findings:

1. Overseas investors contributed much to Hong Kong through their investment amount, employment, export sales and technology transfer.

2. 'Overall cost reduction', 'internationalisation of the business' and 'seek local markets' were the major motives for the overseas investors to invest aboard.
3. Most of the overseas investors expressed a favorable view towards Hong Kong's communication and transportation facilities, supporting industries, geographical location, banking and financial facilities, and the non-discrimination policy of the government. However, they did not satisfy with the manpower resources and land/buildings resources of Hong Kong.
4. 'Hong Kong's free trade policy', 'lower tax rate', 'favorable geographical location', 'better-developed communication and transportation infrastructure' and 'lower labor cost' were the five most important reasons for the overseas investors to select Hong Kong as their destination of investment.
5. Labor problems, namely 'shortage of operatives', 'shortage of technicians' and 'high labor turnover' were the major problems encountered by all the overseas investors in their operations. Besides, the Japanese investors had the extra problems of 'quality control', 'language barrier' and 'differences in work attitudes' while the Americans were more concerned about the 'increasing worldwide protectionism'.
6. About 96 percent of the responding firms of the questionnaire survey expressed a better than expected

attitude towards their present performance. Moreover, 70 percent of them will expand their production capacity in the near future. However, the 'increasing labor costs and land costs', as well as the 'decreasing supply of operatives and technicians', were the most important threats the overseas investors will face in future.

Regarding the future anticipated threats of Hong Kong, the following solutions are recommended:

1. The government should improve the business environment of Hong Kong in terms of a marketing framework i.e. product, price, distribution and promotion. Only through this can Hong Kong still maintain its attractiveness towards the overseas investors.
2. For the overseas investors, factory automation will be the major direction of change. For those labor intensive production process, subcontracting to outsiders or setting up assembling plants in the special economic zones of China are the possible solutions. Under such situation, the Hong Kong office will become the control and servicing unit for the whole company.

ACKNOWLEDGMENTS

The writers would like to express their sincere gratitude to the assistance of the officials of the Industry Department, Hong Kong Government and the companies which had arranged the interviews for us. Their kindness in providing valuable information is highly appreciated.

Special thanks are due to the writers' advisor, Professor Mun Kin-chok, for his continuous advice and guidance.

Ngai Lung-mui, Mary
So Cheuk-wai, Philip
May 1988

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CHAPTER ONE

INTRODUCTION

1.1 Need for the Study

If one reads through the economic history of Hong Kong, he will probably find that Hong Kong is inseparable from overseas investment. Hong Kong owes its origin and present form to foreign investors. The British traders first founded Hong Kong in the nineteenth century and later the Chinese immigrants in the 1920s helped to convert it into an industrial city. Overseas investment had played a significant role in the transition of Hong Kong from a fishing port to an entrepot before the 1950s, to a manufacturing center in the 1970s, and recently to a financial center. With the Sino-British Joint-Declaration, the prosperous local economy, the depreciation of Hong Kong Dollar against major world currencies (except US Dollar), the open-door policy of China, and the excess world capital, overseas investments are rushing into Hong Kong in the last two years. During this period, the total investment amounted to more than HK\$25 billion coming from sixty countries¹ and covering a wide range of business. Prime examples included manufacturing, finance, real estate, hotel, department store, retailing and transportation.

Given Hong Kong's strategic geographic location and high investment value, overseas investment is expected to be

increasingly important in the near future. Therefore, a research study on the overseas investment in Hong Kong is of great interest and significance.

By far, manufacturing accounts for the largest share of employment in Hong Kong. Its long-term commitment is crucial for the economic growth of Hong Kong. Throughout Hong Kong's industrialization history, overseas investments occupied a fairly important position. Through such investments, foreign companies bring capital, technology, management and even ready overseas markets. In addition, overseas investment helps to improve the utilization of production factors, widen the industry base and generate income and employment. Furthermore, such investments are long-term and less volatile than investments in commerce and finance. The fixed investment in manufacturing is not as mobile as money capital or trading assets. Thus, a study of overseas investment in the manufacturing sector is important in providing a better business environment for overseas investors.

1.2 Definition of Overseas Investment

Very often, the term overseas investment is quite misleading in the case of Hong Kong where 98 percent of the population is Chinese but under British rule. Many of the industrial establishments are owned by non-Chinese permanent residents. However, they are still classified as local firms. Besides, there is a considerable amount of overseas

Chinese (includes the emigrants) direct investments in Hong Kong. To clarify the case, this study would follow the definition used by the Government. By overseas investment, it refers to the investment made by non-residents of Hong Kong, i.e. investment from sources outside Hong Kong.

1.3 Research Objectives

Since the research focuses on the perception and attitudes of the overseas investors towards Hong Kong, the study will try to achieve the following objectives:

1. To study the importance of overseas investment in Hong Kong's manufacturing sector and the benefits they have brought to Hong Kong's economy.

The study includes the emergence and development of overseas investment in Hong Kong. Emphasis will be placed on both the tangible and intangible benefits.

2. To identify the investment motives, entry strategies of the overseas investors in Hong Kong.

The analysis will include the significant differences among investors from different origins and in different industries.

3. To study the problems the overseas investors encountered when operating in Hong Kong.

The analysis will relate the operating problems encountered to the independent variables like source

country, industry, number of years in Hong Kong, and extent of using local management staff etc.

4. To make recommendations to the Hong Kong Government in attracting further investment from different countries of origin.

By identifying the problems encountered by the overseas investors, recommendations can be made to strengthen the attractiveness of Hong Kong to the overseas investors as opposed to the competitors of Hong Kong.

5. To provide a framework or guidance to the existing or potential investors on how to adapt their strategies to match with Hong Kong's specific situation.

Apart from what the Government can provide, recommendations are made to the overseas investors to cope with their existing and future problems in investing in Hong Kong.

Note:

1. Ming Pao Daily, March 21, 1988.

CHAPTER TWO

METHODOLOGY

2.1 Scope of Study

As defined from the objectives of the study, this research targets at the overseas investment with manufacturing operations established in Hong Kong. There is no specifications on the source country nor the industry of the overseas investments in this study.

The study mainly consists of two parts: the first is desk research on published articles and statistics; the second part is field study including some in-depth interviews and a questionnaire survey. (refer to Appendix 2.1 for the structure of the study)

2.2 Secondary Research

1. Literature Review

The objective is to obtain information in the following areas:

- the motives to invest outside the domestic countries;
- the returns which the investors are looking for from their overseas operations;
- the benefits of the overseas investments to the host countries;
- the overseas investments in other S. E. Asian countries.

2. Government Survey

The reports of the surveys conducted by the Hong Kong Government on overseas investment in Hong Kong. The Industry Department had conducted a survey¹ on overseas investment in the manufacturing sector of Hong Kong. According to the researchers, the survey covered all the overseas establishments known to the Government and estimated to cover at least 90 percent of the total population. Information from the survey is therefore used as estimators of the population parameters.

3. Previous Related Studies

The objective is to have more understandings on the overseas direct investment in Hong Kong so as to supplement the analysis and interpretation of the data collected from the field study of this project.

4. Government Statistics

The objective is to obtain the statistics of the manufacturing sector of Hong Kong. The statistics are used as benchmarks to evaluate the contribution and role of overseas investment in the manufacturing sector.

2.3 Primary Research

1. Personal interviews

a. Interviewee: The research analysts of the Industry Department responsible for the survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987.

Objective: To obtain insights regarding the difficulties and precautions in conducting the research.

b. Interviewee: The Promotion Officer of the Industry Department

Objective: To understand the Government policy towards overseas direct investment and promotion activities in attracting them.

c. Interviewee: Ten overseas manufacturers judgementslly selected comprising of different source origins in different industries.

Objective: To pretest the appropriateness of the questionnaire to different industries and to obtain some detailed information regarding the management style of different countries.

2. Questionnaire survey

a. Survey Format

Mailed questionnaires were sent to the samples addressing personally to the top management whenever their names could be obtained. A return envelop with postage was enclosed for the convenience of the respondents. A cover letter explaining the purpose of the survey and a promise to send a research summary were used to increase the response rate. A reminder letter together with a copy of the same questionnaire was sent three weeks after the first round mailing.

b. Questionnaire Design

The questionnaire mainly comprises of five sections, asking the information about the respondents' investment motives, entry situation, present operating situation, future planning and some company particulars. (Refer to Appendix 2.2 for the structure of the questionnaire and Appendix 2.3 for a sample of the questionnaire.)

Regarding the investment motives, questions in the following areas are asked:

- the reasons of their parent corporations to invest outside their own countries;
- the reasons to select Hong Kong as the destination of investment;
- other countries that their parent corporations had

considered and evaluated together with Hong Kong.

Regarding the entry situation, questions covered the following areas are included:

- the year of commencing the operation in Hong Kong;
- the attitudes toward the Hong Kong Government's assistance;
- the initial form of venture;
- the form and source of the initial investment;

Regarding the operating situation of the overseas investors, questions about the following areas are asked:

- the present form of venture;
- the product ranges and their similarity with those producing by their parent corporations;
- the assistance and relationship with their parent corporations;
- the nature of production process;
- the R & D activities undertaking;
- the ownership of factory premise;
- the operating problems encountered at present;
- the satisfactory level of their overall present performance;
- the source of top management.

Regarding the future planning. questions include:

- the operational plan in the near future;
- the importance of some anticipated future threats in Hong Kong to them;

- the country selected to invest in future.

The last section is used to solicit some company particulars:

- the source country of the investment;
- the industry the respondent is engaging in.

c. Population of the Survey

All establishments with overseas investment in the manufacturing sector of Hong Kong. Since no official registration regarding this type of establishments, the population parameters are based on the survey done by the Hong Kong Industry Department in 1987 (refer to Table 2.1).

Table 2.1 Population Distribution by Region

<u>Region</u>	<u>Number of Establishments</u>
North America	174
Japan	134
China	36
United Kingdom	55
EEC Countries	83
Asian-Pacific Countries	101
Others	30

	618

The actual number of reporting establishments with overseas interests was 541. The discrepancy arises from the fact that some establishments were joint-ventures involving more than one overseas interest.

Source: Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987, Industry Department, Hong Kong Government.

d. Sampling Frame and Procedure

There is no suitable and complete sampling frame for the survey because of the lack of separate official registration of overseas investment in the manufacturing sector. The mailing list used by the Industry Department is kept in strict confidence. Hence, this survey can only rely on published directories, e.g. on British, American, Japanese and Chinese firms in Hong Kong. Other minor countries depend on the name lists compiled by the Hong Kong Trade Development Council.

The determination of whether the overseas firm is in the manufacturing sector or not was mainly depended on the classification by the directories. Judgemental evaluation basing on the registration name, address and personal knowledge is used to eliminate those without specification. Anyway, a conservative approach, i.e. trying to include rather than eliminate those questionable firms, is adopted to prevent the exclusion of any potential respondent.

At last, a total of 413 questionnaire were sent in the first wave. The distribution of the final sampling list was summarised in Table 2.2.

Table 2.2 Sample Distribution

Source Industry	North						Asian-		Total
	Am.	Japan	UK	China	EEC	Pacific			
Electronics	44	10	6	6	9	3	78		
Non-metallic Mineral Products	1	3	-	-	-	3	7		
Textiles	10	9	7	8	11	2	47		
Chemical Products	11	3	4	1	6	1	26		
Watches & Clocks	1	17	2	2	5	2	29		
Electrical Products	17	18	-	-	4	1	40		
Food & Beverages	11	5	1	1	4	3	25		
Mineral Products	9	4	-	-	2	1	16		
Printing & Publishing	3	6	8	1	2	1	21		
Others	23	26	14	5	43	13	124		
Total	130	101	42	24	86	30	413		

e. Response Rate

After mailing two reminder letters, the final responding situation is:

Total number of responded questionnaires	= 87
Number of responded questionnaire with no overseas investment or not in the manufacturing sector	= 36
Number of questionnaires suitable for analysis	= 51

The response rate from different regions varied drastically. The response rate of Japanese firms is the highest while that of Chinese firms is the lowest.

Response rate from:

North America (only US)	= 11%
Japan	= 18%
UK	= 10%
China	= 4%
EEC Countries	= 13%
Asian-Pacific countries	= 13%

The US respondents were 3 percent of the total number of establishments with North American interests identified in the Government survey conducted by the Industry Department in 1987. While the respondents from Japanese firms represented 13 percent of its population, those from UK were 7 percent, those from China were 3 percent, the EEC were 15 percent and Asian-Pacific countries were 4 percent of their respective population.

f. Analytical Method

The focus of the survey is to make comparisons among investments from different regions. The returned questionnaires are categorized into three regions: North America, EEC countries, Asian-Pacific countries. However, UK, Japan and China are singled out individually because of their unique characteristics and relationship with Hong Kong's economy. UK is separated because of its historical political relationship with Hong Kong. Japan

is due to its outstanding performance and development when compares with the rest of the Asian-Pacific countries and China is set apart because of its political relationship with Hong Kong in the future. Furthermore, no respondents from Canada could be received. Finally, respondents fell into six categories: US, UK, Japan, China, EEC countries, and Asian-Pacific countries.

Statistical tests like ANOVA will be used to test the significant differences on the dependent variables among these regions.

After tabulating the respondents, it is found that the number of respondents from UK, China and Asian-Pacific countries are too few to satisfy the minimum requirements of the statistical tests. No improvements has been occurred after sending the second and the third reminder letters. So only frequency distribution and cross-tabulation will be used in the following analysis. Qualitative interpretation of the results will also be very cautious to prevent any assumptions on the representativeness of the survey sample.

The distribution of the respondents is summarised in Table 2.3.

Table 2.3 Respondents' Distribution

Source Industry	US	Japan	Japan	UK	UK	China	China	EEC	EEC	Asian-Pacific	Total
Electronics	4	4	-	-	4	-					12
Non-metallic Mineral Products	1	2	-	-	-	-					3
Textiles	2	2	2	-	-	-					6
Chemical Products	1	-	1	-	3	1					6
Watches & Clocks	-	2	-	-	1	-					3
Electrical Products	-	4	-	1	3	-					8
Food & Beverages	1	1	-	-	1	1					4
Metal Products	2	1	-	-	1	2					6
Printing & Publishing	1	1	1	-	-	-					3
Others	2	1	-	-	-	-					3
Total	14	18	4	1	13	4					54

* Total number of returned questionnaire was 51. The discrepancy is due to some respondents have more than one overseas interest or engaging in more than one primary industry.

Note:

1. The Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987. Industry Department, Hong Kong Government.

CHAPTER THREE

THE CHARACTERISTICS OF OVERSEAS INVESTMENT
IN THE MANUFACTURING SECTOR OF HONG KONG

3.1 Historical Development

The history of overseas investment in the manufacturing sector can be dated back to the 1900s. But it became important only after the 1960s. Of the 541 manufacturers whose year of establishment can be traced (refer to Table 3.1), 526 (97 percent) started operations in or after 1960, 461 (85 percent) in or after 1970, and 267 (49 percent) in or after 1980.

Table 3.1 Distribution of Overseas Manufacturers by Region and by Year of Commencement

Year	North Am.	UK	EEC	Japan	China	Asian- Pacific	Others	Total	* Ave/ year
Pre 1960	5	4	1	-	2	4	1	15	-
1960-1969	25	9	10	11	1	15	4	65	6.5
1970-1979	50	25	34	62	2	33	8	194	19.4
1980-1984	55	13	33	25	13	22	9	159	31.8
1985	23	2	8	8	8	17	4	53	53.0
1986	16	2	2	17	5	10	3	50	50.0
	174	55	88	124	36	102	29	541	

* The discrepancy is due to some reporting establishments contain more than one overseas interest.

Source: Table 10, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987, Industry Department, Hong Kong Government.

The climax was in 1985 and 1986 with 58 and 50 new establishments respectively. This late awakening of investment coincides with the economic development in Hong Kong. In the 1950s, Hong Kong's economic viability had not yet been seriously tested and its relations with the Communist China were also uncertain. For many overseas investors, it was not a safe place for long-term commitments.

The situation improved steadily in the 1960s. Hong Kong's industrial economy demonstrated its viability and versatility to the world. Foreign investors, now relieved from the political uncertainty, were attracted to Hong Kong by its stability and liberal economic policy. The growth of foreign investment in the manufacturing sector in the 1970s was dramatic. As at 31 December 1971, foreign capital investments totaled HK\$759.5 million. By the end of 1986, the amount has increased by twenty-one times to HK\$15,613 million¹ (total investment at book value).

3.2 Characteristics of Overseas Investment in Hong Kong

1. Distribution by Source Country

At the end of 1986, there were 37 foreign countries with manufacturing establishments in Hong Kong (refer to Appendix 3.1). The total number of establishments were 541 in which 253 were joint-ventures with local interests. US remained to be the most important investor with total amount of HK\$8,053 million. Japan, China and

UK ranked as the second, the third and the fourth respectively. But Japan has the tendency to surpass US in the number of new establishments in 1986. The figures in Table 3.2 reveal that overseas investment in manufacturing were highly concentrated on a country-of-origin basis. US alone accounted for 41 percent of the total investments. The four countries, the US, Japan, China and UK, occupied 82 percent of the total investments. There is also an increase in investments from China and other Asian countries. The average capital investment per establishment of HK\$36 million was a substantial one by Hong Kong standard.

Table 3.2 Total Overseas Investment by Source Country

Country	Number of Establishments	Investment Amount (HK\$ mil.)	% of Total
United States	163	8,853	41
Japan	134	4,009	21
China	36	2,981	15
United Kingdom	55	1,082	6
Others	230	3,429	13
	-----	-----	----
	*		
Total	618	19,554	100

* Actually there were 341 establishments, the discrepancy arises from the fact that some establishments are joint-ventures involving more than one overseas interest.

Source : Appendix 3.1

2. Distribution by Industry

The manufacturing sector of Hong Kong is dominated by light industries, and they are also the industries that the overseas investors interested in. By the end of 1986, the investment was fairly concentrated on a few industries. Electronics (excluding toys, watches and clocks) and textiles and clothing occupied 23 percent (124 establishments) and 21 percent (113 establishments) of the total number of overseas establishments (refer to Table 3.3). However, the picture shows some difference in terms of investment amount. Electronics accounted for 40 percent (HK\$7,853 million) of the total investment. Non-metallic mineral products, with its heavy investment per establishment, surprisingly surpassed textiles and clothing as the second largest industry, HK\$1,962 million or 10 percent in terms of total investment. With the same reason, the average total investment per establishment is HK\$245 million in the non-metallic mineral products. Tobacco ranked as the second with an average of HK\$217 million.

Table 3.3 Total Overseas Investment by Industry

(in HK\$ millions)

Industry	Number of Establishments	Investment Amount	% of Total	Investment Per Estab.
Electronics	124	7,853	40	63.3
Non-metallic Mineral Prod.	8	1,962	10	245.2
Textiles & Clothing	113	1,437	7	12.7
Chemical Prod.	23	1,355	7	43.4
Watches & Clocks	29	1,233	6	42.5
Electrical Prod.	35	1,084	6	40.0
Food & Beverages	19	917	5	43.3
Metal Products	37	772	4	20.9
Printing & Publishing	20	750	4	37.5
Tobacco	3	652	3	217.0
Others	125	1,539	8	12.3
	-----	-----	-----	
Total	541	19,554	100	

Source : Table 4, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987, Industry Department, Hong Kong Government.

3. Distribution by Form of Venture

Among the 541 reporting establishments, 53 percent were wholly-owned by overseas interests. Among the other 47 percent which contained Hong Kong interests, overseas interests still shared a greater amount of investment. The contribution of investment amount from overseas

interests in the joint-ventures is nearly four times as much as that from the Hong Kong partners.

Besides, different source countries have different preference towards the form of venture (wholly-owned or joint-venture) established in Hong Kong (refer to Table 3.4). American, Japanese, British and European investors preferred to establish wholly-owned operations while Asian countries especially Chinese investors preferred to set up joint-ventures.

Table 3.4 Form of Venture of Overseas Investment in Hong Kong by Region

Region	Wholly-owned Subsidiaries	% of Total	Joint-venture With HK Interest	% of Total	Total
North America	103	63	60	37	163
Japan	76	57	53	43	134
China	4	11	32	89	36
United Kingdom	30	55	25	45	55
EEC	56	64	31	36	87
Asian-Pacific	34	33	63	67	102
Others	17	41	24	59	41
	-----		-----		-----
Total	320		298		618
	(288)		(253)		(541)

Note. Figures in brackets denote the actual number of reporting establishments.

Source : Table 3, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987, Industry Department, Hong Kong Government.

4. Previous Studies on Overseas Direct Investment in Hong Kong

Three previous studies on the overseas investment in Hong Kong's manufacturing sector has been made which can provide more understandings about the subject matter.

a. MUN & HO (1976)²

The first study was conducted by Mun and Ho in 1976. The survey covered 81 foreign firms with American, British and Japanese interests. They were asked to rate the importance of each of the twenty factors in their decisions to invest in Hong Kong. The scale ranged from 0 (no importance) to 3 (decisive importance).

The major findings were:

- financial and labor factors were usually regarded as the most important considerations. Financial factors included low tax ceiling, freedom to repatriate earnings and to transfer assets. Labor factors included peaceful industrial relationships, availability of efficient labor etc. Easy to serve export markets, local market potential and stability of Hong Kong Government also received high scores.
- Comparatively speaking, British and Japanese investors emphasised more on financial factors while American investors stressed more on labor factors.

b. HUNG (1979)

The second study was conducted by C. L. Hung in 1979. The responded 108 foreign manufacturers were asked to make two sets of evaluation. The first was to assess the importance of twenty investment factors according to a four-point scale. The second was to rate those factors in the environment of Hong Kong.

Major findings were:

- Production factors were considered to be the most important. The factors were availability of managerial skills; cost of land, office and factory space; labor supply, cost and productivity; and raw materials supplies. Stability factors, incentive factors and marketing factors were ranked as the second, the third and the fourth respectively.
- The attitudes of the respondents towards the investment situation of Hong Kong were generally favorable.
- The most significant conclusion was that there was a negative correlation between the importance of the investment factors and the favorability rating of the factors in Hong Kong. Those factors receiving high importance rating received very low favorability ratings and while those receiving high favorability ratings were not those received high importance ratings (refer to Appendix 3.2).
- There were rooms for Hong Kong to improve its international image and attractiveness to foreign investors.

From the above two studies, it was found that overseas investors were very concerned about the location-specific advantages of their investing countries. Hong Kong was competing on the efficiency and flexibility of the production factors instead of competing on cost.

4

C. CHEN (1981)

Chen had undertaken a questionnaire survey on the foreign operations in the four major industries in Hong Kong: Electronics, Plastics and Toy, Textiles and lastly Garments. The focus of the study was the role of foreign firms in technology transfer and employment generation in these four industries.

Major conclusions were:

- There was a positive correlation between the extent of foreign investment and the rate of technical progress in the major industries of Hong Kong. Foreign firms were more likely to undertake labor training and to act as agents of technology transfer from their respective parent corporations. Though they did not have a greater propensity to conduct R & D in Hong Kong than local manufacturers, they tended to spend proportionately more on R & D if they did.
- Foreign firms promoted the rates of diffusion of technology in Hong Kong.
- Adaptations had been made when innovations were

introduced by overseas investors.

- There was a positive relationship between export expansion and employment generation in Hong Kong. But there was no sufficient evidence to support the expectation that the role of foreign firms in manufactured exports was more significant than local manufacturers when comparing the export propensity (export to sales ratio) of the respondents of the survey.

From Chen's study, it is quite certain that overseas investments do benefit Hong Kong's manufacturing sector although some benefits like export generation is difficult to assess due to the lack of sufficient data.

Notes:

1. Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987, Industry Department, Hong Kong Government.
2. Mun, K. C. and Ho, S. C. 'Foreign Investment in Hong Kong', in T. B. Lin and R. P. L. Lee and U. Simons (eds), Hong Kong: Economic, Social and Political Studies in Development. (White Plains: M.E. Sharpe, 1979).
3. Hung, C. L. 'Foreign Investments', in D.G. Lethbridge (ed.), The Business Environment in Hong Kong. (Oxford University Press, 1980).
4. Chen, K.Y. 'Multinational Corporations, Technology and Employment', The Macmillan Press Ltd, 1983.

CHAPTER FOUR

BENEFITS OF OVERSEAS INVESTMENT TO HONG KONG

The number of overseas manufacturers in Hong Kong has maintained at one percent of the total number of manufacturing establishments (refer to Table 4.1). As at 31 December 1986, there were 541 overseas manufacturers known to the Hong Kong Industry Department. This only occupied 1.11 percent of the total number of manufacturing establishments (48,623) ¹.

However, this percentage figure underestimates the economic significance and the benefits of the overseas manufacturers brought to Hong Kong. The contribution of overseas investment can be more fully realized when considering its contribution in the following areas in detail:

- (1) the amount of investment;
- (2) the employment and subcontracting arrangements created;
- (3) the domestic exports and sales generated;
- (4) the technology transferred;
- (5) other indirect benefits.

Table 4.1 Number of Establishments in the Manufacturing Sector of Hong Kong

Year	Overseas	Over Previous Year (%)	% of Total	Total	Over Previous Year (%)
1983	442	-	0.94	46,817	-
1984	-	-	-	48,992	4.60
1985	509	-	1.06	48,065	-1.90
1986	541	6.20	1.11	48,623	1.20

Source: Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1984, 1986, and 1987, Industry Department, Hong Kong Government.

Industrial Investment Hong Kong, Statistical Table 1987, Industry Department, Hong Kong Government.

4.1 Amount of Investment

By the end of 1986, the total amount of investment from overseas interests at book value was HK\$15,613 million. This represented an increase of 25 percent over the HK\$12,492 million of 1985 (refer to Table 4.2). 42 percent of the investment amount was in form of fixed assets consisting land & buildings, and machinery & equipment while the other 58 percent was working capital amounting to HK\$9,002 million. In the year of 1986, the value of net acquisitions on fixed assets of the 541 overseas establishments was HK\$1,603 million (refer to Table 4.3). The increase over 1985 was 55 percent. When compared with the total investment in plant and machinery of the manufacturing sector during the same period, the investment value of the overseas investors had substantially exceeded

that of the local manufacturers. In 1986, Hong Kong's total investment in plant, machinery and equipment was HK\$24,720 million which was only 8 percent over 1985 (compared with the 55 percent for overseas manufacturers). The proportion of overseas investment in Hong Kong's total investment in plant and machinery has become more and more important, increasing from 4.5 percent in 1985 to 6.5 percent in 1986. There is no doubt that overseas investment has been increasingly important in recent years.

Table 4.2 Amount of Overseas Investment in Hong Kong's Manufacturing Sector

(in HK\$ millions)

Year	Fixed Assets at Book Value	% of Total	Working Capital	% of Total	Total Invest. at Book Value
1983	5,151	45	6,297	55	11,448
1984	-	-	-	-	-
1985	5,772	46	6,720	54	12,492
1986	6,610	42	9,002	58	15,613

Source: Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1984, 1986, and 1987, Industry Department, Hong Kong Government.

Industrial Investment Hong Kong, Statistical Table 1987, Industry Department, Hong Kong Government.

Table 4.3 Overseas Investment in Plant & Machinery

(in HK\$ millions)

Year	Net Acquisition of Fixed Assets	Over Previous Year (%)	% of Total	HK's Total Investment on P & M	Over Previous Year (%)
1983	-	-	-	18,294	-
1984	1,105	-	4.7	23,422	28.0
1985	1,031	-7.0	4.5	22,889	-2.0
1986	1,603	55.0	6.5	24,720	8.0

* Estimation based on a 8% increase on investment in P & M.

Source: Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1984, 1986, and 1987, Industry Department, Hong Kong Government.

Industrial Investment Hong Kong, Statistical Table 1987, Industry Department, Hong Kong Government.

Another significant evidence that showed the contribution of the overseas investors to Hong Kong's economy was the investment per establishment. The majority of manufacturing establishments in Hong Kong are small firms. Comparatively speaking, operations set up by overseas investors are larger in size. The average investment value of overseas manufacturers was HK\$3 million in 1986 (refer to Table 4.4). However, the average for Hong Kong manufacturers was HK\$510,000 only. From this, it is noticed that overseas investors are more aggressive in investing in Hong Kong. The trend in the past years had reflected this phenomenon. Foreign investors had more confidence in Hong Kong's political and economic future.

Their investments helped to fill the gap left by the outflow of capital from Hong Kong. Their contributions will act as the driving force for Hong Kong's future economic growth.

Table 4.4 Investment Per Establishment in the Manufacturing Sector

(in HK\$ millions)		
Year	Overseas	HK Total
1983	-	0.39
1984	-	0.48
1985	2	0.48
1986	3	0.51

Source: Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1984, 1986, and 1987, Industry Department, Hong Kong Government.

Industrial Investment Hong Kong, Statistical Table 1987, Industry Department, Hong Kong Government.

4.2 Generation of Employment

According to the figures released by the Industry Department (refer to Table 4.5), the 541 overseas manufacturers employed a total of 101,455 workers at the end of 1986. This figure represented 11.7 percent of the total employment in manufacturing in Hong Kong.

In addition, overseas establishments tended to employ more workers per establishment. The average number of employees employed by an overseas establishment in 1986 was 188 while it was only 18 for the manufacturing sector as a whole (refer to Table 4.6). In other words, the average employment size of overseas factories was ten times larger than that of the majority of local factories.

Table 4.5 Number of Employees in the Manufacturing Sector

Year	Overseas	Over Previous Year (%)	% of Total	HK's Total	Over Previous Year (%)
1983	89,033	-	10.3	865,000	-
1984	-	-	-	905,000	4.6
1985	86,426	-	10.2	849,000	-6.2
1986	101,455	17.0	11.7	870,000	2.5

Source: Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1984, 1986, and 1987, Industry Department, Hong Kong Government.

Industrial Investment Hong Kong, Statistical Table 1987, Industry Department, Hong Kong Government.

Table 4.6 Number of Employees Per Establishment in the Manufacturing Sector

Year	Overseas	Over Previous Year (%)	% of Total	HK's Total	Over Previous Year (%)
1983	201	-	1,086	13.5	-
1984	-	-	-	13.5	0.0
1985	170	-	960	17.7	-4.3
1986	138	10.6	1,050	17.9	1.1

Source: Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1984, 1986, and 1987, Industry Department, Hong Kong Government.

Industrial Investment Hong Kong, Statistical Table 1987, Industry Department, Hong Kong Government.

If the employment generated through work subcontracting is taken into account, the contribution of overseas investors to industrial employment would be even greater. In 1986, there were 205 overseas firms, or 38 percent of the total, had subcontracting agreements with other local/overseas factories (refer to Table 4.7). Among these 205 overseas firms, only 72 had arrangements with factories outside Hong Kong. When looking at the trend, there was an increasing number of overseas establishments subcontracting their work to outsiders. Besides, the percentage of work that had been subcontracted was also increasing. Though the majority of the subcontracting arrangements (56 percent) were still below 25 percent of the total production, the portion of subcontracting production is definitely

increasing. Therefore the actual employment provided by overseas investors would far exceed the 101,000 figure.

Table 4.7 Subcontracting Arrangements of Overseas Manufacturers

Year	Number of Establishments	% of Total	% Subcontracted to Local/Foreign Factories			
			Less Than 25%	25% to <50%	50% to <75%	75% or More
1983	152	34.4	-	-	-	-
1984	-	-	-	-	-	-
	a					
1985	125	24.6	77(62)	19(15)	12(10)	17(13)
	b					
1986	205	37.9	116(56)	34(17)	27(13)	28(14)

a - 49 establishments had subcontracting arrangement with factories outside Hong Kong.

b - 72 establishments had subcontracting arrangement with factories outside Hong Kong.

Figures in brackets represent the relative percentage of the corresponding figures.

Source: Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1984, 1986, and 1987, Industry Department, Hong Kong Government.

4.3 Domestic Exports and Sales Generated

In 1986, the total sales for the 541 overseas manufacturers was HK\$44,095 million (refer to Table 4.8). The total sales value represented a 18.7 percent growth rate over that in 1985. Besides, the value was increasingly important in terms of GDP. In 1983, it only represented 13.1 percent of Hong Kong's GDP. It has grown to 13.6 percent in 1985 and 15.1 percent in 1986.

Manufacturing industries in Hong Kong are highly export-oriented, this is also true for the foreign manufacturers. Of the 1986 total sales, 67.7 percent was for export. The dollar value of these sales amounted to HK\$29,859 million representing 19.4 percent of Hong Kong's domestic exports in that year. In addition, the growth in export sales by overseas establishments exceeded the figure of Hong Kong's total manufacturing export. This can be reflected from the increasing portion of the former against the latter. Compared to the overall pattern in 1986, the export sales of foreign manufacturers were generally more oriented towards the United States, China, Europe and Japan (refer to Appendix 4.1). This suggests the countries of origin of investment and the export territories were highly correlated. Thus overseas investment did provide an extremely good marketing channel for Hong Kong's export.

Table 4.8 Sales of Overseas Manufacturers

(in HK\$ millions)

Year	HK's GDP	HK's Total Export	OM's Total Sales	% of GDP	OM's Export Sales	% of Total Sales	% of HK's Total Export
1983	207,562	104,405	27,209	13.1	18,619	68.4	17.8
1984	248,728	137,936	-	-	-	-	-
1985	263,579	129,882	35,319	13.6	24,274	67.8	18.7
1986	291,897	153,983	44,095	15.1	29,359	67.7	19.4

Source: Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1984, 1986, and 1987, Industry Department, Hong Kong Government.

Industrial Investment Hong Kong, Statistical Table 1987, Industry Department, Hong Kong Government.

4.4 Transfer of Technology

Technology can be broadly defined as 'the sum of knowledge - scientific, empirical, artistic, or in general - experience and skills necessary for manufacturing a product or products and for establishing an enterprise for this purpose'.² Technology flows through the media of capital equipment and intermediate goods, techniques or processes, and skilled manpower. Overseas direct investment in manufacturing is a well-known agent through which technology is transferred to host countries. This is also true for Hong Kong's overseas investment as discussed by Chen (1981).

Looking at the historical development of the industrialization in Hong Kong, it is quite obvious that in

many instances new industries were first established by foreign investors solely, or as joint-ventures between local and overseas investors with the former providing the local market information and the latter the technology know-how. Moreover, overseas investors also contributed much to the industrial diversification of Hong Kong.

By the end of 1986, there were 253 joint-ventures between Hong Kong and overseas interests among the 541 overseas establishments. In addition, 368 of the 541 establishments had licensing arrangement with an/or technical assistance/information provided by overseas owners/partners (refer to Appendix 4.2). USA and Japan were the most important contributors. Over 80 percent of their establishments in Hong Kong had licensing arrangements with their parent corporations. On the whole, 183 establishments transferred their production technology from their parent corporations. Moreover, the overseas investors were actively assisting their subsidiaries in product design and development, production technique, production processes, quality control, and management techniques. All of them could be regarded as technology transferred into Hong Kong.

4.5 Other Indirect Benefits

Apart from the above, there are some other benefits resulting from overseas investment. The first one is its contribution towards the real estate business in Hong Kong. By the end of 1986, the accumulated investment at book value of the 541 firms on land and buildings was over HK\$2,693 million. Out of the total, 192 establishments (35.5 percent) had self-owned premises (refer to Appendix 4.3 and 4.4). Although there was no significant difference on the basis of source country, some industries, such as non-metallic mineral products, food and beverages and printing and publishing had a higher percentage of self-owned premise. This was probably due to the specific requirements on buildings for their production process. Nevertheless, the overseas investment on land and buildings will help to maintain the local real estate business at a prosperous level.

Besides, overseas investment also helped to improve the supporting industries of Hong Kong. At present, many overseas investors are supplying high quality materials for other local manufacturers. Examples include chemicals, metal products, non-metallic mineral products, yarns and fabrics etc. The whole manufacturing sector will be benefited from the better supporting industries. With the increasing industrial diversification invested by overseas interests, Hong Kong can gradually reduce its reliance on imported materials and semi-finished components.

Lastly, Hong Kong is benefited from the transfer of management skills. At the end of 1986, only 11.2 percent of the management staff of the overseas establishments were expatriates. Under this situation, local staff has substantial opportunities to learn the techniques and skills in managing an industrial establishment. Thus, overseas investment provided excellent training opportunities for local managers for the transition of Hong Kong to be a servicing and managing center in future.

4.6 Findings from the Questionnaire Survey

Among the 51 respondents, 31 of them were wholly-owned subsidiaries and 16 were equity joint-ventures when they were initially set up in Hong Kong (refer to Table 4.9). However, the distribution pattern has been changed. Now 38 of them were wholly-owned subsidiaries while only 11 were joint-ventures. The overseas investors preferred joint-ventures at the initial stage because they did not know the local business environment. Once they gained enough experience, they moved to wholly-owned subsidiaries for better control and greater flexibility.

The writers find that the overseas investors contributed capital, machinery, technology know-how and management skills through their investments in Hong Kong (refer to Table 4.10). For the five major items, capital was the most common one, followed by technology know-how, management skills, machinery and patent/franchise/licence

respectively. Thus, overseas investors can be regarded as important agents for the transfer of capital and technology.

Table 4.9 Form of Venture of the Respondents (N=51)

Form of Venture	Initial Form	% of Total	Present Form	% of Total
Wholly-owned Subsidiar	31	60.8	33	74.5
Equity joint-venture	16	31.3	11	21.5
Contractual joint-venture	2	3.9	2	4.0
Licensing/franchising	0	0.0	0	0.0
Others	1	2.0	0	0.0
Missing variable	1	2.0	0	0.0
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	51	100.0	51	100.0

Source: Questionnaire Survey

Table 4.10 Form of Contribution to their Investment of the Respondents (N=48)

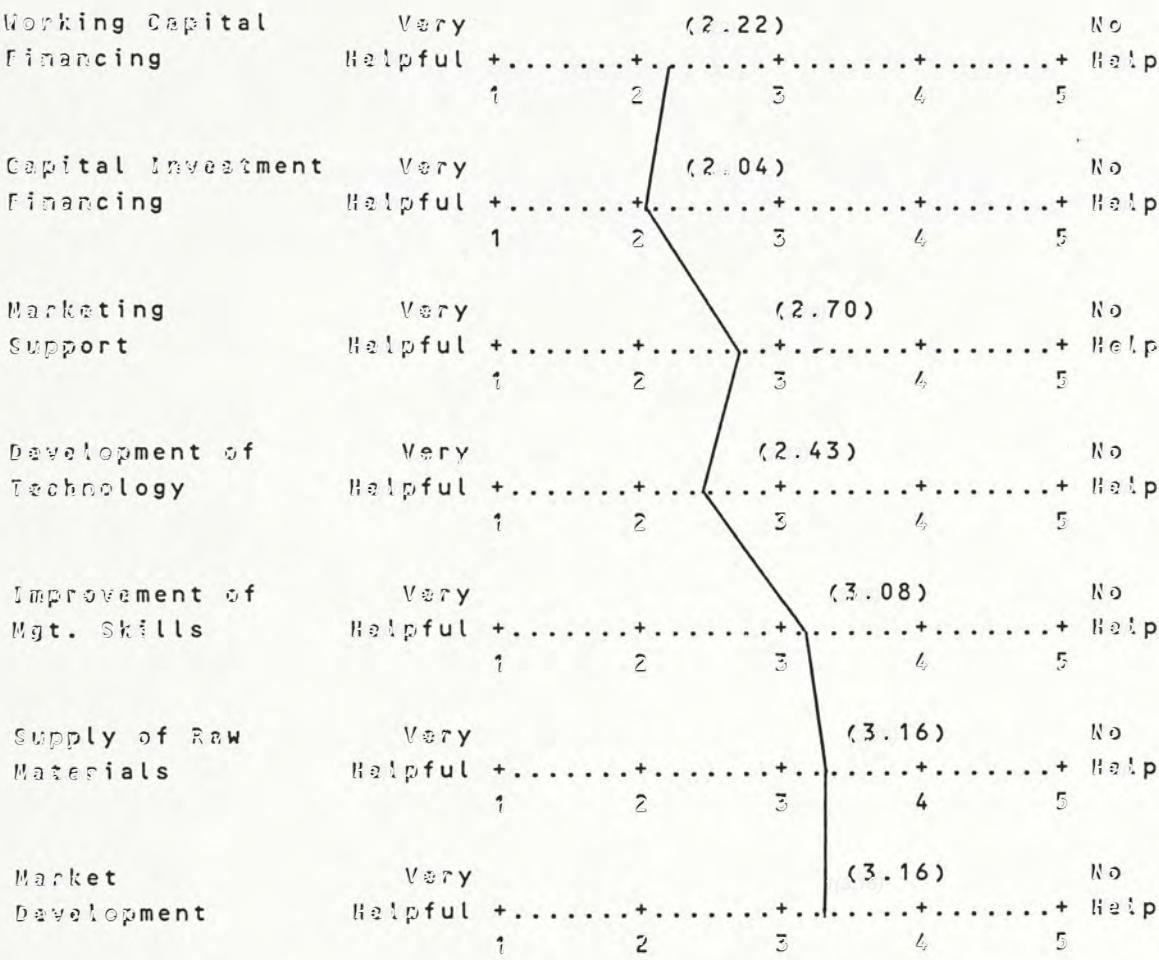
Form of Contribution	Number of Establishments	% of Total
Capital	39	81
Machinery	16	33
Technology Know-how	37	77
Patent/franchise/licence	5	10
Management Skills	13	33

Source: Questionnaire Survey

Apart from the setting up period, overseas investors also contributed to Hong Kong's industrial development through their close relationship with their parent corporations in their daily operations. Through the questionnaire, the writers had analyzed the relationship between the overseas establishments in Hong Kong and their parent corporations in the areas of working capital financing, capital investment financing, marketing support, development of physical technology, improvement of management skills, supply of raw materials, and market development. The results (Diagram 4.1) showed that overseas manufacturers had obtained the greatest help from their parent corporations in capital investment financing, working capital financing and development of physical technology. Their parent corporations also supported them on the marketing of their finished products.

In addition, the respondents were asked about the source of their production technology. Over 82 percent of them mentioned their parent corporations while only 39 percent have local research and development facilities (refer to Table 4.11). From the analysis, the data demonstrated once more that overseas investment was an important source of capital, technology know-how, overseas markets, and industrial employment.

Diagram 4.1 Relations Between the Responding Firms and their Parent Corporations (N=51)



Source: Questionnaire Survey

Table 4.11 Source of Respondents' Production Technology (N=51)

Source of Production Technology	Number of Establishments	% of Total
Parent Corporation	42	82.3
Developed in Hong Kong	20	39.2
Imported from Other Countries	9	17.6
Others	1	2.0

Source: Questionnaire Survey

Notes:

1. Census & Statistics Department, 1987 Hong Kong In Figures. Hong Kong Government.
2. United Nations, Guidelines for the Acquisitions of Foreign Technology in Developing Countries'. United Nations, New York, 1973. ppl.

CHAPTER FIVE

INVESTMENT MOTIVES

In order to recommend strategies and improvements to increase the competitiveness of Hong Kong in attracting overseas investment, it is important to learn the motives of the overseas investors to invest aboard.

5.1 Theories of Foreign Direct Investment

Though foreign investment has been of increasing importance, there is still no completely satisfactory theory which can explain the motives of foreign direct investment. To derive theories of foreign direct investment, one has to modify the conventional trade theory and consider the dynamic aspects of comparative advantage. Moreover, one has to look for other aspects such as the micro-economics of the firm, industrial organization theories, location theories, and capital theories.

Initiated by MacDougall¹ and elaborated by Kemp², the macro-economic theory suggests that, in a perfectly competitive world, capital will move from the lower-rate-of-return country to the higher-rate-of-return country which drives the corporations to go aboard. For instance, the MacDougall-Kemp model explains the movement of capital but it does not explain why only a limited number of firms do take up the opportunities to go aboard. The model does

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explain why firms prefer direct investment to licensing and exporting but does not explain why some firms export and invest abroad simultaneously. Nevertheless the theory has a significant impact on the development of the later international trade and investment theories.

According to Hymer's oligopolistic model³, the principal motive for direct investment is the firm's desire to control foreign operations. Hymer was the first to suggest that the most important reason for foreign direct investment was maximizing the returns from the firm's ownership-specific advantages under oligopolistic market structure. The ownership-specific advantages include technology, supplies of inputs, economies of scale, diversification of risks, and better access to capital markets. However, the model fails to explain the Japanese type of direct investment which is not based on its ownership of sophisticated technologies.

The location theory takes another view. It proposes that it is the host country's possession of a number of location-specific advantages that attracts foreign direct investment. These advantages include the availability and the lower cost of inputs, the proximity of local market, the government incentives, and the by-pass of trade restrictions.

Vernon's product life cycle theory⁴ is basically a discussion of the changes in location-specific factors over

time. Vernon divides the development of a product into three stages - new product, maturing product, and standardized product, each of which is associated with a specific oligopolistic behavior. The product life cycle takes into consideration both ownership-specific and location-specific factors in explaining foreign direct investment. But it fails to explain the foreign direct investment which is not for export substitution, nor the direct investment in non-standardized products, nor of special designs for overseas markets.

Alternatively, the internalisation theory asserts that the motivation of foreign direct investment is the benefits from internalising the imperfect markets. The internalisation of markets across national boundaries will depend on location-specific factors. With the presence of location-specific advantages in host country, for example, the lower factor costs, internalisation of the market will take place across national boundaries, which leads to direct investment.

Lastly, Dunning's eclectic theory⁵ suggests that there are three components or determinants of foreign direct investment. The first is the ownership-specific advantages of firms. The second is the internalisation advantages possessed by some firms. The third is the location-specific factors of the home and host countries. Although the eclectic theory has a strong explanatory power, it derives this power simply from integrating all other theories.

To conclude, it is necessary to understand the reasons why firms invest outside their own countries, i.e. their needs and what the host countries can offer to attract these investors.

5.2 Why Did the Respondents have Foreign Direct Investment?

To find out the reasons why the overseas investors in Hong Kong like to invest abroad, respondents of the questionnaire survey were asked to identify the motives for their parent corporations' direct investment. In the questionnaire, twelve different reasons for foreign direct investment were given. Respondents were asked to select the three most important reasons and ranked them according to their relative importance from '1=most important' to '3=least important'. The results were then grouped into two different tables basing on industries and regions. The purpose is to find out whether there are any differences among the different industries and among the different countries.

From Table 5.1, one can find that 'overall cost reduction', 'seek local markets', and 'internationalisation of the business' were the three most important motives for the respondents' parent corporations to invest abroad. Among the three, the desire for internationalisation occupied almost 26 percent of the total frequency of response.

However, variations occurred among different industries. It seems that 'overall cost reduction' was more important in the electronics, textiles and clothing, and printing and publishing industries. Besides, the non-metallic mineral products and food and beverages industries treated local sales as their prime motive. For the electronics, chemical products, electrical products, and metal products, the motive of 'follow the customers' replaced the others as the third important motive for foreign direct investment.

Though the three major motives remained the same under the basis of region, there were variations among the different regions (refer to Table 5.2). US investors are more concerned about 'overall cost reduction' than 'internationalisation of business'. While 'seek new technology know-how' seemed to be more important to China. From the statistics, the motives of the overseas investors were quite homogeneous (except China). The four motives, namely 'overall cost reduction', 'follow the customers', 'seek local markets' and 'internationalisation of the business', outstripped the others with a very high margin. Obviously, the similarity in the source of origin of the investment played a significant role. Most of the investment were come from industrialized or newly developed countries. Therefore their investment motives were very homogeneous.

Table 5.1 Frequency Distribution of Motives by Industry

Frequency of variable Motive of FDI		Industry										Total
		Electronics	Non-metallic Mineral pdts	Textiles & Clothing	Chemical pdts	Watches & Clocks	Electrical pdts	Food & Beverages	Metal pdts	Printing & Publishing	Others	
Access to prod- uction factors		2	0	1	0	1	1	0	0	1	1	7
Overall cost reduction		8	1	4	1	3	3	1	2	3	2	28
Follow the competitors		1	0	0	0	0	0	0	0	0	0	1
Follow the customers		5	1	3	4	0	4	0	4	1	1	23
Bypass trade restrictions		1	0	1	0	0	1	0	0	0	1	4
Seek local markets		3	2	4	4	3	2	4	3	2	0	28
Seek new tech- nology know-how		0	0	0	0	0	1	1	0	0	1	3
Vertical integration		1	0	0	0	0	0	0	0	0	0	1
Risk diversification		2	0	2	0	0	2	0	1	0	0	7
Internationali- sation of the business		8	2	3	6	2	6	3	6	2	2	40
Unfavorable dom- estic investment environment		2	0	0	1	0	1	1	2	0	1	8
Others		2	2	0	0	0	0	0	2	0	0	6
Total		35	9	18	16	9	21	10	20	9	9	156
No. of respondents		12	3	6	6	3	7	4	6	3	3	53

Source : Questionnaire Survey

Table 5.2 Frequency Distribution of Motives by Region

Frequency of variable Motive of FDI	Region							Total
	USA	China	UK	EEC	EEC	Japan	Asian-Pacific	
Access to production factors	3	0	1	0	3	0	7	7
Overall cost reduction	10	0	3	4	4	10	1	28
Follow the competitors	0	0	0	0	1	0	1	1
Follow the customers	6	1	2	4	7	2	22	22
Bypass trade restrictions	1	0	0	1	2	0	4	4
Seek local markets	6	0	3	7	8	4	28	28
Seek new technology know-how	2	1	0	0	0	0	3	3
Vertical Integration	1	0	0	0	0	0	1	1
Risk diversification	1	0	0	1	3	1	6	6
Internationalisation of the business	9	1	2	10	14	3	39	39
Unfavorable domestic investment environment	2	0	0	2	1	1	6	6
Others	1	0	0	1	3	0	5	5
Total	42	3	11	30	32	12	150	150
No. of respondents	14	1	4	11	18	4	52	52

Source : Questionnaire Survey

To further analyze the relative importance among the three most important motives described above, the total score for each motive is calculated, each time the reason being ranked the first is given 3 points, the second 2 points, and the third 1 point, the total points are summarised in Table 5.3 and 5.4.

Table 5.3 Total Score Distribution of the Three Most Important Motives by Industry

Total score of variable Motive of FDI	Industry										Total
	Electronics	Non-metallic Mineral pdts	Textiles & Clothing	Chemical pdts	Watches & Clocks	Electrical pdts	Food & Beverages	Metal pdts	Printing & Publishing	Others	
Overall cost reduction	20	1	8	1	8	8	1	3	7	6	63
Seek local markets	6	8	7	9	4	4	10	6	2	0	56
International- isation of the business	14	3	9	13	4	14	7	11	3	2	80
Total	40	12	24	23	16	26	18	20	12	8	199

Source : Questionnaire Survey

Table 5.4 Total Score Distribution of the Three Most Important Motives by Region

Total score of variable Motive of FDI	Region						Total
	USA	China	UK	EEC	Japan	Asian-Pacific	
Overall cost reduction	21	0	6	8	27	1	63
Seek local markets	10	0	7	16	15	9	57
Internationalisation of the business	20	2	3	22	25	5	77
Total	51	2	16	46	67	15	197

Source : Questionnaire Survey

From Table 5.3, one may notice the extreme importance of 'overall cost reduction' in the electronics industry. It took 50 percent of the total points of the industry. This was also true for the watches and clocks, and printing and publishing. However, local market was the prime motives for the non-metallic mineral products and food and beverages. Finally, the three motives were of equal importance to the textiles and clothing industry.

On the regional basis, the picture was different (refer to Table 5.4). To the Americans and the Japanese, 'overall cost reduction' and 'internationalisation of the business' were more important than the local market. However, the Asian-Pacific and the UK investors treated the local markets as their prime motivation for direct investment. Lastly, the EEC and China were fond of internationalizing their business.

The above was an brief analysis on the investment motives of the overseas investors in Hong Kong. Before moving to the reason of choosing Hong Kong as their place of investment, it is worthwhile to assess the comparative advantages of Hong Kong in attracting overseas investment.

5.3 Comparative Advantages of Hong Kong over Other Asian Countries

Hong Kong has an extremely liberal economic policy. The 'non-intervention' policy means there is very little government intervention in private business activities. Hong Kong government has not make any distinction between foreign and local corporations. They are registered under the same set of laws, subjected to the same set of business regulations and taxed at the same rate. Legal requirements are few and restrictions are minimal. Overseas investors can invest in any business and own up to 100 percent of the equity. There is no restrictive employment legislation apart from minimal labor ordinances only aim at protecting

children and female workers and apply to all private businesses. There is no limit on the repatriation of capital and remittances of earnings, interests and other fees. Nor are there any exchange control.

In contrast to Hong Kong, other countries in the Asian-Pacific region such as Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand have far more complicated policies towards overseas investment. On one hand, they recognize the valuable contributions of foreign direct investments to their economies, while on the other hand they are anxious to control the extent of foreign investments and to encourage the participation of local interests. To accomplish these objectives, these countries have created a vast array of incentive schemes together with a set of restrictive regulations.

In these countries, all foreign investment projects require government approval and confirmation. Some sensitive sectors are closed entirely to overseas investors, while some require majority local ownership. Preferences are usually given to export-oriented industries with advanced technology. In recent years emphasis has also been placed on those industries which have a high local content and which can generate substantial employment. The incentives provided to compensate for the restrictions and regulations mainly include tax holidays, tax deferral privileges, tariff protection, duty-free imports of capital goods and materials, and guarantees of capital repatriation and profit remittances⁶

Which Asian countries are directly competing with Hong Kong for overseas investment? Who are Hong Kong's strongest competitors? These are the important questions the Hong Kong Government should ask before it formulate its policies to attract the overseas investors. In the questionnaire survey, the respondents were asked to write down the three countries their parent corporations had considered to invest before they chose Hong Kong as the final destination. The data are analyzed in Table 5.5.

Table 5.5 Frequency Distribution of Countries under Consideration
(N=51)

Country	(Multiple Answers)	
	Frequency of response	Percentage
Singapore	17	21.0
Taiwan	15	20.0
China PRC	8	10.1
Malaysia	6	7.6
South Korea	6	7.6
Thailand	6	7.6
Indonesia	3	3.8
USA	3	3.8
F.R. of Germany	2	2.5
Philippines	2	2.5
Australia	1	1.2
Canada	1	1.2
Denmark	1	1.2
U.K.	1	1.2
Spain	1	1.2
Mexico	1	1.2
International	3	3.8
No other consideration	2	2.5
	-----	-----
	79	100.0

Number of missing variables = 74

Source : Questionnaire Survey

Singapore remains to be Hong Kong's strongest competitor, which was followed by Taiwan. Though China came to be the third, its frequency of being mentioned was far behind. Thus, it is worthwhile to have a brief analysis on the strengths and weaknesses of Singapore and Taiwan as an overseas investment center.

1. Singapore

Singapore relies heavily on overseas investment which accounts for the majority of the net investment in manufacturing. In 1985, the amount was S\$1,136 million representing 80 percent of the total investment in manufacturing industries. The Economic Development Board (EDB) of Singapore, is entrusted with the task of actively encouraging foreign investors of international repute to set up their operations in Singapore.

The strengths of Singapore as an investment center include political stability, sound industrial relations, excellent infrastructure, honest and efficient government, strategic location, a pool of skilled and well-motivated national corporations.

Singapore is handicapped by its small size, lack of natural resources and small population size. Its high tax and central provident fund rates make it very costly to operate a manufacturing base in Singapore. The active intervention of the government into the economic system has created a set of restrictive regulations on overseas

investment.

To overcome its weaknesses, the FDB tried hard to withhold the national wage at the 1983 level. Moreover, overseas advertisements, seminars on business opportunities, investment missions are organized to encourage overseas investment. Tax incentives and financial assistance are also used to attract investment from overseas.

2. Taiwan

Like Singapore, the Taiwan Government places high priority on attracting capital inflow and the transfer of technology know-how to Taiwan. The statute for Encouragement of Investment, the Statute for Investment by Foreign Nationals and the Statute for Investment by Overseas Chinese are the basic laws governing the administration of overseas investment projects.

The strengths of Taiwan are built on its flexible labor, low labor cost, high savings rate, good infrastructure, honest and efficient government.

However, Taiwan does have some weaknesses. There are strong government intervention in the economic system. From time to time, the Government lists opportunities, categories and criteria as investment guidelines for enterprises that are considered desirable and appropriate for foreign investment. Besides, certain industries such as public utilities, petroleum, and military are closed to overseas

investment. The appreciation of the New Taiwan Dollar, the pressure for high inflation, the foreign exchange control and the world's protectionism have also created barriers for overseas investment.

In coping with the above weaknesses, the Taiwan Government has implemented a series of reforms in its financial system, encouraged the development of certain strategic industries, and permitted overseas investors to produce goods for internal sales. Finally, tax incentives, protection against government expropriation or acquisition, and ownership concession are also given to encourage overseas investment.

5.4 Perceptions of the Overseas Investors Towards the Business Environment of Hong Kong

According to the government survey 1987, nearly 70 percent of the respondents expressed a satisfactory view towards the business situation of Hong Kong in 1986 (refer to Appendix 5.1). For 1987, the majority of them (72.6 percent) still maintained an optimistic view towards the business situation. However, 50 percent of the 541 establishments were uncertain of the situation in the coming five years. This partly reflects the prudent attitudes of the overseas investors towards the political stability of Hong Kong when approaching 1997.

In the same survey, over 93 percent of the respondents

expressed a favorable view towards the manufacturing investment environment of Hong Kong as a whole (refer to Appendix 5.2).

However, one can see a different picture for the individual variables surveyed. For the government policy, the majority of the respondents were quite satisfied with most of the variables except the fiscal incentive. Some of the overseas investors urged the government to grant additional fiscal incentives for overseas investment which is not available at present.

On the whole, the 541 overseas manufacturers were satisfied with Hong Kong's communication and transportation facilities, banking and financial facilities, supporting industries, geographic location, accessibility to world market, and non-discrimination policy of the government.

A different picture happened on the variables of land and buildings, manpower, and supporting industries. Overall speaking, the percentage of unfavorable response was higher than the favorable one (excluding the neutral) in all the sub-variables under land and buildings. The situation was most significant at the costs of industrial land and buildings. Over 52 percent of the establishments showed an unfavorable view against 16 percent who had a favorable attitude.

Alternatively, the situation varied under the manpower aspect. The respondents seemed to be more satisfied at the

skill and productivity of all levels of manpower and also the employer/labor relations. Unfortunately, they worried about the supply, cost and turnover of operatives/craftsmen, technical staff and management staff. The situation was the worst at the turnover of the operatives/craftsmen. Over 55 percent of them had an unfavorable attitude while only 11 percent found the factor favorable. Another significant problem was the supply of craftsmen/operatives where the percentage of unfavorable response exceeded the favorable one by one time. On the whole, the table reflects the existence of a serious problem on the supply, cost and turnover of the craftsmen/operatives and technical staff.

From the above analysis, the overall perception of the overseas investors on Hong Kong's business environment were quite favorable except a few. But what made them to choose Hong Kong other than the other Asian countries? Our questionnaire survey has tried to find the reasons behind. The result is analyzed in the following section.

5.5 Reasons for the Overseas Investors to Select Hong Kong

Again, the respondents were asked to select the five most important reasons to invest in Hong Kong as compared with other countries. They had to rank among them according to their relative importance from '1=most important' to '5=least important'. The frequency distribution of the responses were summarized in Table 5.6 and Table 5.7 based on industries and regions.

In Table 5.6, the distribution among the various industries was quite homogeneous, and came up with five major reasons in choosing Hong Kong. According to their frequency counts, 'Hong Kong's free trade policy' was the most significant reason. It was then followed by 'lower tax rate', 'favorable geographical location', 'better-developed communication and transportation infrastructure' and 'lower labor cost'. These five factors accounted for a very high percentage of the total responses for any particular industry. The figure is 60 percent for electronics, 60 percent for non-metallic mineral products, 58 percent for textiles and clothing, 50 percent for chemical products, 40 percent for watches and clocks, 74 percent for electrical products, 59 percent for food and beverages, 60 percent for metal products, and 75 percent for publishing and printing.

However, certain factors were more appealing to certain specific industries. 'High labor productivity' and 'no foreign exchange control' attained a considerable high frequency in the electronics industry. Finally, 'a more stable political environment' was quite important to the clocks and watches, and printing and publishing industries.

When analyze on a regional basis, those five major reasons described above still dominated the distribution. Moreover, the total percentage of these five factors was even higher for certain regions. For the US, the percentage was 54. For China, the figure was 60 percent,

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followed by 67 percent for UK, 53 percent for EEC, 66 percent for Japan, and 58 percent for the Asian-Pacific countries. For Japan, 17 out of the 18 respondents selected 'Hong Kong's free trade policy' as one of their reasons to invest in Hong Kong. In addition, the 'lower tax rate' of Hong Kong was more important for Japanese investors as its percentage is 100 (18 out of 18).

Certain factors were more appealing for specific countries. For the US and Japan, the 'more stable political environment' and 'no foreign exchange control' got a considerable higher frequency. While the EEC investors favored the 'minimal intervention of the Hong Kong Government'.

Table 5.6 Frequency Distribution of Reasons to Invest in Hong Kong by Industry

Frequency of variable Reasons to invest in HK	Industry										
	Electronics	Non-metallic Mineral pdts	Textiles & Clothing	Chemical pdts	Watches & Clocks	Electrical pdts	Food & Beverages	Metal pdts	Printing & publishing	Others	Total
HK's free trade policy	8	2	4	2	3	7	2	4	3	2	37
Minimal intervention of the HK Government	4	2	1	2	2	1	1	1	1	0	15
Active assistance from the HK Government	1	0	0	0	0	0	1	0	0	0	2
More stable political environment	1	2	2	1	3	1	1	3	1	1	16
Lower tax rate	8	2	2	4	2	6	3	3	3	1	34
No foreign exchange control	7	1	2	3	1	2	1	3	0	1	21
Better-developed communication & transportation infrastructure	8	2	2	3	0	4	1	2	1	2	25
More efficient financial services	1	0	0	1	0	1	0	0	0	0	3
Easier to access financial assistance	0	0	0	0	0	0	0	0	1	0	1
More advanced industrial technology level	1	0	0	0	0	0	1	0	0	2	4
Lower labor cost	5	1	2	0	1	4	2	2	3	2	22

(Cont.)

Higher labor productivity	5	0	2	1	2	0	0	0	0	1	11
More supply of technicians	0	0	0	0	0	1	0	0	0	1	2
More supporting industries	1	0	0	0	0	0	0	0	0	1	2
Favorable geographical location	6	2	4	2	0	4	2	4	2	1	27
More similar culture with parent country	0	0	0	1	0	1	1	1	0	0	4
Less language barrier	1	0	0	0	0	1	0	0	0	0	2
Closer political relationship between HK and parent country	0	0	0	0	0	0	0	1	1	0	6
Existence of local market	0	0	2	2	0	0	1	1	0	0	6
Others	1	1	1	0	1	1	0	0	0	0	5
Total	58	15	24	22	15	34	17	25	16	15	241
No. of respondents	12	3	6	6	3	7	4	6	3	3	53

Source: Questionnaire Survey

Table 5.7 Frequency Distribution of the Reasons to Invest in Hong Kong by Region

Frequency of variable Reasons to invest in HK	Region						
	USA	China	UK	Japan	EEC	Asian- Pacific	Total
HK's free trade policy	9	1	2	5	17	2	36
Minimal intervention of the HK Government	3	1	0	5	4	2	15
Active assistance from the HK Government	0	0	0	1	1	0	2
More stable political environment	5	0	0	2	7	1	15
Lower tax rate	4	0	1	7	18	2	32
No foreign exchange control	6	1	0	4	9	0	20
Better-developed communication & transportation infrastructure	9	1	2	5	7	0	24
More efficient financial services	0	0	0	2	1	0	3
Easier to access financial assistance	1	0	0	0	0	0	1
More advanced industrial technology level	4	0	0	0	1	0	5
Lower labor cost	6	0	2	3	9	1	21
Higher labor productivity	6	0	1	2	1	0	10

(Cont.)

More supply of technicians	1	0	0	0	1	0	2
More supporting industries	1	0	0	1	0	0	2
Favorable geographical location	9	1	1	4	8	2	25
More similar culture with parent country	0	0	0	1	2	0	3
Less language barrier	1	0	0	0	1	0	2
Closer political relationship between HK and parent country	1	0	1	0	0	0	2
Existence of local market	1	0	2	2	0	2	7
Others	1	0	0	1	3	0	5
Total	63	5	12	45	90	12	232
No. of respondents	14	1	4	11	13	4	52

Source: Questionnaire Survey

Once more, the five most important reasons are taken out and their total points (frequency times points assigned according to the ranking of each variable, from 5 points to the first to 1 point to the fifth) are calculated in Table 5.8 and Table 5.9. For Table 5.8, the distribution was quite even except the watches and clocks industry. 'Hong Kong's free trade policy', 'lower tax rate' and 'lower labor cost' together occupied 100 percent of the total scores of

the watches and clocks industry. For chemical products, the 'lower tax rate' alone accounted for 48 percent of the total scores for the whole industry.

Table 5.8 Total Score Distribution of the Five Most Important Reasons to Invest in Hong Kong by Industry

Reasons to invest in HK	Industry										Total
	Electronics	Non-metallic Mineral pdts	Textiles & Clothing	Chemical pdts	Watches & Clocks	Electrical pdts	Food & Beverages	Metal pdts	Printing & Publishing	Others	
HK's free trade policy	31	9	10	8	9	20	7	14	12	10	130
Lower tax rate	21	4	5	15	5	19	8	14	10	1	102
Better-developed communication & transportation infrastructure	24	3	5	4	0	11	3	7	2	5	64
Lower labor cost	14	5	7	0	5	16	4	5	13	5	74
Favorable geographical location	18	5	12	4	0	16	2	12	3	1	73
Total	108	26	39	31	19	82	24	52	40	22	443

Source: Questionnaire Survey

Table 5.9 shows the calculation based on regional source of investment. The distribution was quite even for US and UK. For China, the 'lower tax rate' and 'lower labor cost' were irrelevant to them as it has a cheaper labor pool

and a comparable tax rate with Hong Kong. The Japanese considered 'Hong Kong's free trade policy' and 'lower tax rate' as extremely important as these two factors occupied 62 percent of the total score. Lastly, the EEC investors favored the 'lower tax rate' of Hong Kong very much for it accounted for 32 percent of the total score.

Table 5.9 Total Score Distribution of the Five Most Important Reasons to Invest in Hong Kong by Region

Total score of variable Reasons to invest in HK	Region						Total
	USA	China	UK	Japan	EEC	Asian- Pacific	
HK's free trade policy	37	3	5	13	63	8	129
Lower tax rate	11	0	3	23	50	8	95
Better-developed communication & transportation infrastructure	24	3	4	13	16	0	60
Lower labor cost	17	0	9	9	35	2	72
Favorable geographical location	20	3	5	15	17	6	66
Total	109	9	26	73	181	24	422

Source: Questionnaire Survey

Notes:

1. MacDougall, G.D. A., 'The Benefits and Costs of Private Investment from Abroad: A Theoretical Approach', Bulletin of the Oxford University Institute of Economics and Statistics, Aug. 1960.
2. Kemp, M.C., 'Foreign Investment and the National Advantage', Economic Record, March 1961.
3. Hymer, S. H. 'The International Operations of National Firms: A Study of Direct Foreign Investment'. MIT Press, 1976.
4. Vernon, R., 'International Investment and International Trade in the Product Cycle', Quarterly Journal of Economics, May 1966.
5. Dunning, J. H. 'Toward an Eclectic Theory of International Production: Some Empirical Tests', Journal of International Business Studies, Spring/Summer 1980.
6. This is a description of some complicate sets of business regulations governing overseas investments in these countries. The broad guidelines are written in the regulations, but the precise terms have to be negotiated individually. Besides, the governments usually adopt a high flexible policy in dealing with overseas investment. For a comprehensive description of government regulations and incentives, please refer to 'SGV Group, Comparative Investment Incentives: Hong Kong, Indonesia, Korea, Macau, Malaysia, Philippines, Singapore, Taiwan, Thailand'. (Manila, 1982).

CHAPTER SIX

THE OPERATING PROBLEMS OF THE OVERSEAS DIRECT INVESTMENT IN HONG KONG

This chapter focuses on the operating problems of the respondents encountered in their manufacturing operation in Hong Kong.

The overall operating problems envisaged by all overseas investors are revealed from both the government survey 1987 and the questionnaire survey conducted for this study. Further analyses on the problems envisaged by the respondents broken down by region, industry or number of years operated in Hong Kong in latter sections have to rely solely on the results of the questionnaire survey conducted by the writers.

6.1 Business Problems Encountered by All Overseas Investors

In the government survey conducted by the Industry Department, 19 problems were suggested in the questionnaire. Respondents were asked to evaluate whether each of them was 'No Problem', 'Slight Problem' or 'Serious Problem' to his own firm. Problems in five major areas were suggested: market competition; factory premise; labor; raw materials, parts & components; and lastly supporting industries.

From the result summary, it was very clear that labor was the most problematic area envisaged by most respondents.

The problems envisaged by at least 50 percent of the 541 reporting establishments are summarized in Table 6.1.

Table 6.1 Operating Problems of the Overseas Manufacturers in Hong Kong

Problem	Serious Problem (%)	Slight Problem (%)	No Problem (%)
High labor turnover	40	38	22
Shortage of operatives/craftsmen	39	38	23
High labor costs	32	47	21
High cost of raw materials/parts	30	45	25
Shortage of technicians	22	42	36
Competition from local manufacturers	20	40	40
High cost of factory premise	19	33	47

Total number of reporting establishments = 541. A total of 11 establishments reported to have encountered none of the business problems mentioned.

Source: Table 26, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industry 1987, Industry Department, Hong Kong Government. (For details, refer to Appendix 6.1)

Over 80 percent of the reporting establishments had envisaged at least one labor problem, no matter it is the 'high labor turnover', 'shortage of operatives/craftsmen', 'high labor costs' or 'shortage of technicians'. Many firms envisaged two or more labor problems simultaneously.

This conclusion is consistent with the questionnaire survey done for this project. Respondents were asked to evaluate the seriousness of fifteen problems according to

their own situation, the scale ranged from '0=No Problem' to '4=Very Serious Problem'. The problems being rated most serious were also those labor-related problems like 'shortage of operatives', 'shortage of technicians' and 'high labor turnover'. These problems were followed tightly by the training problems of technicians and management staff (refer to Table 6.2).

Table 6.2 Respondents' Operating Problems (N=51)

<u>Problem</u>	<u>Mean Score</u>
Shortage of operatives	2.6
Shortage of technicians	2.5
High labor turnover	2.4
Training of technicians	1.8
Training of management staff	1.6
Quality control	1.5
Differences in work attitudes	1.2
Overall cost control	1.2
Insufficient supporting industries	1.2
Transportation problem	1.1
Language barrier	1.0
Increasing protectionism	1.0
HK Government's bureaucracy	1.0
Insufficient communication facilities	0.4
Shortage of local finance	0.4

Note: The rating is 0=No problem, 4=Very serious problem

Source: Questionnaire Survey

These problems are closely related. Labor shortage will directly encourage high labor turnover. Firms trying to maintain the trained or experienced labor have to pay more, and hence pushing up the labor cost. Moreover, the high labor turnover and shortage in the labor market will

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2
exaggerate the training problems.

In Hong Kong, labor problem is not limited to overseas investors. Local companies, including other industries and sectors, are also seriously affected by the labor shortage problem.

According to the estimation of the Labor Commissioner, Hong Kong's manufacturing sector is lacking about 10 percent of the workers¹.

In 1986, the labor force in Hong Kong lied between 2,600,000 to 2,700,000 people. The participation rate of male labor was as high as 80 percent and that for female was 48 percent. The overall labor participation maintained at a level of 64 to 65 percent, while the unemployment rate stayed at a very low level of about 2 percent.

The employment in the manufacturing sector reached a level of 869,800 workers in 1986, increased by 2.5 percent over the same period of 1985. However, at the same time, the manufacturing sector had the greatest number of reported vacancies as compared with other sectors (refer to Table 6.3). There were 53,900 reported manufacturing vacancies in September 1987, increased by 68 percent as compared to 1986², which was in turn 59.5 percent more than that reported in 1985. Furthermore the percentage of reported vacancies to employment is also the highest in the manufacturing sector, being 3.6 percent, while the vacancies in other industries were only about 1.5 percent of the employment in

the respective industries.

Table 6.3 Employment Situation & Reported Vacancies in Selected Industries

Industry	(a)		(b)		
	No. employed as at 02/86	% increase over 1985	Reported vacancies at 02/86	(a)/(b) (%)	% increase over 1985
Mfg Sector	869,800	2.5	32,100	3.6	59.2
Finance, Insurance, Commerce & Property	191,100	6.6	2,900	1.5	13.6
Retail, Wholesale & Export	433,800	4.5	6,400	1.5	45.3
Restaurants & Hotels	131,000	3.8	2,100	1.2	66.6
Construction	69,000	7.0	-	-	-

Source: 1986 Economic Background

There is a shift of emphasis from the secondary industry to tertiary industry in the economy of Hong Kong. In 1971, the manufacturing sector took up 47 percent of the total labor-force, which decreased to 41 percent in 1981 and further to 36 percent in 1986. While the share of the total employment in the tertiary sector increased from 41 percent in 1971 to 47 percent in 1981 and 55 percent in 1986.

This shift in the structure of the labor market, together with the increasing labor demand in the manufacturing sector during the recent years, make the

manufacturers very difficult to recruit and maintain enough workers.

The social attitudes believing that manufacturing workers are having lower wages, poorer working environment, and higher industrial accidental rates have also discouraged young people from entering into the workforce for the manufacturing sector³.

In September 1986, the average daily wage of a manufacturing worker was about HK\$108 with only 25 percent of the workforce could earn more than HK\$126 per day. Although the nominal wage rate has been increasing for the past few years, the increase in the real wage was minimal. As depicted in the Table 6.4, from March 1986 to March 1987, the real wage has only been increased by 4 percent. However that of the construction industry has increased by 6 percent, servicing industry by 3 percent, retailing industry by 8 percent, finance and banking industry by 7 percent. This put manufacturing sector in a disadvantageous position to attract enough workers.

Table 6.4 Employment Situation in the Manufacturing Sector

	<u>Mar '86</u>	<u>Mar '87</u>
Unemployment rate	2.2%	2.1%
Employment in manufacturing sector	865,614	884,920
Real wage index (Mar'82 = 100)	103.9	106.0

Source: Hang Seng Economic Monthly, July 1987.

6.2 Further Analysis on the Operating Problems

In order to obtain more insights, further analyses are conducted by breaking the 51 reporting establishments down by the following criteria.

1. By Region

From the experience of other developing countries, overseas investment from various sources always suffers some culture-related problems like incompatible management style, different work attitudes between the local staff or communication barriers. The industrialization stage of the source countries also has much impact on the success in technology transfer. Highly industrialized countries always complain that the infrastructure of the host countries (which are usually less developed in terms of industrialization) cannot support their transferred technology. Problems in transportation, supporting industries and labor productivity are most common.

In order to identify whether the above situation happens in Hong Kong. The operating problems encountered by overseas investments are analyzed by breaking down the respondents according to their source countries. The relative rankings, according to the seriousness of the problems, specified by the respondents by region are summarized in Appendix 6.2.

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Overall speaking, the operating problems encountered by the majority of the overseas investors were not very serious. The mean score was below two except the top three labor problems, 'shortage of operatives', 'shortage of technicians' and 'high labor turnover'. Only minor differences occurred among the rankings on the seriousness of the various problems made by the respondents of different regions.

American investors ranked the 'increasing protectionism' as more serious (the seventh among the 15 problems) as compared with other respondents (the overall ranking was twelfth).

Japanese investors perceived that 'difference in work attitudes', 'quality control', 'training of management staff', 'overall cost control' and 'language barriers' were quite serious and followed tightly after the three most serious labor problems. This perception reflects the transfer of the management style to Hong Kong from their parent corporations in Japan. 'High labor turnover' was the most serious problem the Japanese respondents encountered in Hong Kong which would not happen in Japan.

British investors encountered more difficulties in training of technicians and management staff as compared with the rest of the overseas establishments. While the investments from Asian-Pacific countries felt that 'Hong

Kong Government bureaucracy', 'insufficient supporting industries' and 'transportation difficulties' were the serious problems next to the labor problems. Their recent entries with the motive to seek local technology can explain why these problems are serious to them.

2. By Industry

Based on the understanding that different industries have different requirements on the production factors employed and hence will encounter different problems, the operating problems are analyzed by the industry of the respondents (refer to Appendix 6.3).

Non-metallic mineral products and chemical products were the only two industries that did not suffered much from the 'shortage of operatives' with the mean score below two. The capital-intensive nature of these two industries can alleviate their dependence on operative workers.

Overseas investors in textile industry, as other local textile manufacturers, were threatened by the 'increasing protectionism'.

Besides the labor problems, only investors in electrical products perceived the 'insufficient supporting industries' to be quite serious (mean score being 2.1).

As a whole, the overseas investors in Hong Kong did not encounter other serious problems apart from the labor problems.

3. By the Extent of Localization of Management Staff

The degree of localization of management of the 51 reporting establishments was measured by the ratio of the number of expatriates to the number of top management staff. From the results, it was found that overseas investors from different countries had different preference in the extent of using expatriates at the top management level (refer to Table 6.5).

Table 6.5 Expatriates Employment Situation of the Respondents

Ratio of Number of Expatriates to Total Number of Top Management Staff								
No	0:1 to	1:2 to	1:1 to	3:2 to	2:1 to	3:1 to	4:1 to	4:1 or
Exp.	1:2	1:1	3:2	2:1	3:1	4:1	above	
USA	4	6	2	1	1	-	-	-
Japan	1	1	10	3	1	-	1	1
UK	-	3	1	-	-	-	-	-
China	-	-	-	-	-	1	-	-
EEC	2	4	3	1	-	-	-	-
Asian Pacific	2	-	1	-	1	-	-	-

Note: The figures denote the frequency distribution of the respondents in the matrix.

Source: Questionnaire Survey

American investors preferred to use local management. About 30 percent of the reporting US establishments did not have any expatriates and another 55 percent had locally-employed staff at the top management level. On the contrary, Japanese investors preferred to have their operations managed by the Japanese transferred from parent corporations, most of the Japanese reporting establishments had expatriates exceeded the number of top management staff.

The reporting establishments are breaking down by the degree of localization of the management staff, then the rankings on the seriousness of the operating problems encountered are summarized in Appendix 6.4. It is obvious that establishments with higher proportion of expatriates tend to perceived more problems to be serious. The 'difference in work attitudes' was also being ranked much higher in those overseas establishments.

4. By the Number of Years Operated in Hong Kong

Overseas investment with a longer history in Hong Kong are expected to have better adaptations to the business situation in Hong Kong. They are expected to be better equipped with strategies developed to solve the problems encountered. The respondents are classified into categories according to the number of years they have been operated in Hong Kong, then their evaluation on

the operating problems are summarized in Appendix 6.5. From the table, no significant differences could be identified among the establishments with different operating history in Hong Kong. The most serious problems encountered were still those labor-related ones.

To conclude, labor related problems are the most serious problems encountered by all the overseas investors in the manufacturing sector of Hong Kong apart from some exceptionally capital-intensive industries, like non-metallic mineral products. Investors from some culturally different countries have encountered additional problems when they tried to transfer their own management style directly to Hong Kong by a large pool of expatriates. Establishments managed by local people seems to be able to reduce the intensity of the problems encountered.

Notes:

1. 王銳添, "引進外來勞工治標不治本: 香港勞工短缺現象不容忽視." 信報財經月刊, 第十一卷第六期, 頁 93-98.
2. Business Post, South China Morning Post, April 19, 1988. pp4.
3. England, J. and Rear, J. 'Industrial Relations and Law in Hong Kong'. Oxford, 1981 pp40-41 from Note 1.

CHAPTER SEVEN

FUTURE PLANNING

7.1 Attitudes Towards the Business Situation of Hong Kong and the Performance of the Present Investment

This chapter focuses on the attitudes of the overseas investors towards Hong Kong's business situation, their present performance and hence their future planning.

From the government survey, a very encouraging result was obtained. Over 70% of the respondents were satisfied with Hong Kong's business situation in 1987 and about 45% of the respondents were expecting a satisfactory situation in the coming five years.

In addition to the favorable attitudes towards the overall business situation of Hong Kong. The overseas investors also showed a high satisfaction level towards their existing operation in Hong Kong. From the questionnaire survey of the project (refer to Table 7.1), 96 percent of the 51 respondents reported that the performance of their present operation could at least meet their parent corporations' expectation, with over 68 percent reported the occurrence of a better than expected performance. Only 4 percent (2 respondents) reported a worse than expected performance in their operations.

Table 7.1 Present Performance of the Hong Kong's Operation (N=51)

<u>Satisfaction Level</u>	<u>% of the total respondents</u>
Much better than expected	24
Better than expected	45
Same as expected	27
Worse than expected	4
Much worse than expected	0
	----- 100

Source: Questionnaire Survey

The satisfaction level on the performance is further analyzed by breaking down the respondents by region and industry. Due to the overall high appraisal, no significant difference can be revealed when breaking down the respondents by region or by industry (refer to Appendix 7.1 and 7.2).

Regarding the establishments stating a 'worse than expected' performance, one came from an EEC country and the other from Japan. One was producing chemical products and the other was engaging in both the electrical and metal products industries.

Since no significant characteristics could be drawn from the break-downs, the satisfactory appraisal of the performance of their operations is likely to be Hong Kong-specific, not limited to certain industries or investment from certain sources.

7.2 Future Planning of the Overseas Investors

The satisfactory attitude towards both the business situation and their existing investments led to expansive future planning of the overseas investors. As revealed from the government survey, 96 percent of the 541 reporting establishments planned to have some sort of expansion. Only 4 percent of the respondents planned to phase out partly or totally from Hong Kong (refer to Table 7.2).

Table 7.2 Business Planning of the Overseas Investors
(N=541)

<u>Business Plan</u>	<u>% of the total respondents</u>
Expand production capacity of existing products	40
Improve marketing ability of existing products	27
Introduce new production process	16
Develop new products	24
Move into larger premise or setup additional premise in Hong Kong	17
Setup additional plants in other Asian countries	13
Phase out entire operation in Hong Kong	1
Phase out part of operation in Hong Kong	3

Source: Table 27, Report on the Survey of Overseas Investments in Hong Kong's Manufacturing Industries 1987, Industry Department, Hong Kong Government.

The majority of the business plans of the respondents require additional fixed asset commitment to Hong Kong, especially those planned to expand the existing production capacity, to introduce new production process, to develop new products, to move into larger premise or to set up additional branches. These expansive plans will definitely increase the benefits brought to Hong Kong as discussed in Chapter Four. Direct benefits will include capital investment, employment generation and technology upgrading.

A confirming result had been obtained from the questionnaire survey regarding the future planning activities of the overseas investors. Among the 51 respondents, 70 percent of them planned to expand their operation capacity in the future (refer to Table 7.3).

Since the majority of the 51 respondents of the sample survey reported to have expansive plans, no significant differences can be drawn among investments from different sources or engaging in different industries.

Table 7.3 Future Planning of the Overseas Investors (N=51)

<u>Plan for the Hong Kong Operation</u>	<u>% of respondents</u>
Withdraw completely	2
Contract capacity	6
No specific plan	22
Expand capacity	70

	100

Source: Questionnaire Survey

The four respondents planning to contract the capacity came from the US and EEC countries (refer to Appendix 7.3). No relationship could be established with the performance evaluation of the existing operation. So no meaningful conclusion could be drawn.

The respondents planning to withdraw completely was in the watches & clocks industry, while the other two planning to contract the capacity were in textiles and chemical industries (refer to Appendix 7.4). The only linkage that could be established is that they were all labor-intensive. The problem of labor shortage might be a reason for their intention to contract the capacity.

From the in-depth interviews held with a sample of investors, there is intention among them to shift the labor-intensive production process to China where they could

obtain an abundant supply of labor at a very low cost. In fact, not only overseas investors, a greater proportion of local manufacturers have already established some kind of production and assembling base in China, especially in those special economic zones (e.g. Shenzhen, Xiamen) where Hong Kong businessmen can obtain much incentives.

However, due to the small sample size, it is not possible to draw any statistically significant conclusion regarding the differences among industries.

7.3 The Significance of the Anticipated Changes in Hong Kong's Business Environment

Regarding the attitudes of anticipated changes in the future environment, most research asked the respondents to rate each problem according to some type of scale. Although this could reveal the attitudes of the respondents towards the problems, several problems might receive the same rating, making it difficult to differentiate the importance among these anticipated problems.

The questionnaire survey tried to ask the respondents to select three changes in Hong Kong which will affect their own firms most and rank them in order of seriousness.

Two analysis procedures are then employed to interpret the results. First is counting the frequency of each factor being selected as one of the three most important anticipated problems. Second, each selected problem is given

points according to its ranking, three points are given to the most important, followed by two points and one point respectively. The average point each problem obtained can be compared to reveal the relative importance if the frequency counts of more than one problem are the same.

When considering the frequency counts the order of the problems is summarized in Table 7.4.

Table 7.4 Seriousness of the Anticipated Problems in Hong Kong's Business Environment

Anticipated Problems	Frequency Count	Average Point
Increasing labor costs	40	2.33
Decreasing operatives supply	25	2.19
Increasing land costs	15	2.00
Decreasing technicians supply	12	1.40
Possibility of changing the pegged exchange rate	12	1.20
Increasing political instability	12	1.58
Increasing internal competition	11	2.00
Decreasing managerial staff supply	9	2.00
Decreasing availability of suitable land/buildings	8	1.60
Increasing worldwide protectionism	4	2.25

Source: Questionnaire Survey

The result further confirms the findings of the

government survey. Labor problem is rated to be the most serious problem in the near future by most respondents and is also rated in the highest position in average by the respondents selecting this problem.

Political instability also received much attention. Fortunately, when comparing its average point, it is the lowest among the other problems that had been selected by the same number of respondents. Although this problem is perceived to be important, it is not too serious. When many local industrialists move their investment out of Hong Kong, overseas investors seemed to have a greater confidence in Hong Kong. This may credit to their international experience. When comparing to other S. E. Asian countries, Hong Kong is politically more stable in both the Government and society.

In addition, many investors are still keeping a close eye on the huge potential of the China market. Hong Kong is still a very good stepping stone and testing ground for those overseas investors with no experience with the oriental culture.

Increasing protectionism, although being considered to be the major threat to Hong Kong's textiles, garment and electronics industries, was perceived to be the problem with the least effect by the overseas investors. The assistance obtained from their parent corporations may have helped them to bypass this problem.

The attitudes towards the importance of the anticipated problems were very consistent throughout the respondents from different regions (refer to Appendix 7.5). The most important problems were still the increasing labor cost and decreasing operatives supply. Differences occurred only at the third problem.

US investors were concerned about the decreasing technician supply and the increasing political instability. US firms tended to use more local staff. So their concern over the local labor supply extend to management staff and technicians. Political instability always has a direct impact on the short-term profit of a firm. Furthermore, US investors have also faced much nationalization of business in other Asian countries. So they are more concern about this problem.

On the other hand, Japanese investors looked more closely on the possibility of any changes in the pegged exchange rate between Hong Kong dollar and US dollar. Outflow of investments from Japan has been increased drastically in the recent years. In addition to the prospering economy of Japan, the appreciation of the Japanese yen against the US dollar is one of the main reasons. This currency appreciation makes it relatively cheaper to establish production base outside Japan.

The responses from EEC countries were very consistent with the overall pattern. The limited number of respondents from individual regions of the questionnaire survey makes

any sensible statistical tests of differences impossible. The sample size of Chinese, British and Asian investors were even too small to identify any meaningful characteristics from crosstabs.

When breaking down the respondents by industry (refer to Appendix 7.6), no significant difference could be identified among the attitudes of the investors in different industries. This might attribute to the small number of respondents in each industry and the diversification of the characteristics (e.g. size of establishment and technology employed and management style etc.) of the firms within each industry category.

Problems like decreasing availability of suitable land depends very much on the type of technology employed, and the present operating situation of the firms. Other problems like decreasing managerial staff and technician supply are more related to the extent of centralization and localization of the parent corporation and tie more closely to the management culture of the parent corporation.

7.4 Potential Competitors of Hong Kong

In the questionnaire survey, respondents were asked to recommend a location for future investment. This can help to solicit the potential competitors of Hong Kong for future investment.

From the results, most respondents still recommended Hong Kong, so revealing that they were really quite happy with the operations and investments here.

Second to Hong Kong were China and Thailand. These two countries were opened up recently and were very active in attracting overseas investors.

CHAPTER VIII

CONCLUSION

Throughout Hong Kong's industrialization process, overseas investment had played a significant role. Such investment is crucial for the prosperity of Hong Kong in future. Because of its importance, a study on the overseas investment in the manufacturing sector is worthwhile in providing a better business environment for the overseas investors.

Through the survey conducted by the Industry Department and the writers' questionnaire survey, it is found that overseas investment did contribute much to the economic prosperity of Hong Kong. With a total investment amount of HK\$15,613 million (at book value) at the end of 1986, overseas investment had generated an employment of 101,455. From the statistics, the investment value and employment per establishment of the overseas investors far exceeded the average value of the whole manufacturing sector. Besides, substantial employment was created through their subcontracting arrangements with the local factories. In addition, the proportion of their sales against Hong Kong's GDP was also increasing. The same phenomenon was found in the percentage of their sales against Hong Kong's total export. Technology transfer was another benefit which overseas investment brought to Hong Kong. Lastly, the real

estate business was also enhanced through their substantial investment on land and buildings.

Just like foreign investment in other countries, the major motives for Hong Kong's foreign manufacturers in investing aboard was 'overall cost reduction' and 'internationalisation of the business'. Hong Kong's free trade policy was the prime attraction to the overseas investors. The lower tax rate, favorable geographical location, better-developed communication and transportation infrastructure, and lower labor cost were among the others which attracted the overseas investors to select Hong Kong as their destination of investment. In fact, most of the investors expressed a favorable attitude towards Hong Kong's infrastructure, banking and financial facilities, supporting industries, geographical location and non-discrimination policy of the Hong Kong Government.

Hong Kong's manufacturing sector attained a rapid growth in the last few years, so did the overseas manufacturers. However, such rapid growth has intensified the demand for operatives/craftsmen and technicians. As a result, shortage of operatives/technicians and high labor turnover became the most serious problems for the overseas manufacturers in their operations in Hong Kong. Though most of them had tried hard to solve the labor-shortage problem, it seems that there is no immediate solution. So it is important to know what was their future plans in regard to their operations in Hong Kong.

Given its free trade policy and favorable geographical location, Hong Kong is still a good place to invest. In fact, 69 percent of the respondents of the questionnaire survey expressed a better than expected attitude towards their present performance. Moreover, over 96 percent of the 541 reporting establishments in the government survey planned to have some sort of expansions. This coincided with the response of the questionnaire survey. From the survey, over 70 percent of the 51 respondents will expand their production capacity in future. Unfortunately, the increasing labor/land costs and the decreasing supply of operatives/technicians would severely affect their intention to further invest in Hong Kong. Unless some sort of solutions are found out in coping with these problems, the attractiveness of Hong Kong as a center of overseas investment will be seriously hampered.

CHAPTER NINE

RECOMMENDATIONS

After analyzing the economic contribution of overseas investments, there is no doubt about their value and importance to Hong Kong. In face of the increasing competition for foreign investment from neighboring countries like Thailand, Singapore, China etc., it is necessary for the Hong Kong Government to formulate a long-term policy to maintain the competitiveness of Hong Kong.

At the same time, the overseas investors must adapt changes in coping with the operating problems.

Therefore, recommendations are made for both parties.

9.1 To the Hong Kong Government

Hong Kong has presented herself as a developing country with abundant supplies of cheap production factors since the sixties. With the competitiveness built on low operating costs, including cheap labor wages, cheap utilities charges and low tax rate, Hong Kong was successful in attracting investments from those industrialized countries with high production costs.

However, the environment has changed recently. As concluded from the study, Hong Kong is losing its cost advantage to other Asian countries namely Thailand and

China. The labor costs, land and building costs have been increasing due to the shortages in supply. The comparative cost advantage is losing much faster when taking into account the tax incentives and concessions provided by those recently opened countries.

In view of the external threats and internal pressure, Hong Kong has to change its competitive strategy from cost leadership to product differentiation. Instead of being a cheap production location for assembly work, the whole manufacturing sector should strike for technology advancement and capital-intensive industry. The Hong Kong Government has also advised the industrialists to aim at diversification and technology development. Overseas investment with advanced technology can help a lot to achieve the transition.

Based on this macro-industrial objective. Hong Kong has to position herself as a highly efficient and flexible investment location to overseas investors where they can have complete control over their operation. Only this can benefit both the overseas investors and the Hong Kong economy.

The free market economy with minimal government intervention is a good selling proposition, which is valued by most investors and sustainable in a foreseeable future. No other neighboring Asian countries, at least in the near future, can pursue a truly non-intervention government policy towards overseas investments. The role of the Hong

Kong Government is to create and maintain a stable and supportive investment climate in which investors can compete freely on market mechanism. No tangible discrimination policy nor special incentives to overseas investment are recommended, all support and assistance should be provided for the manufacturing sector as a whole.

To provide a flexible and efficient investment climate, attention should be paid to the following aspects:

1. Labor Problem

It is the most serious problem encountered by the overseas investors, which includes the shortage in operatives and technicians, the increasing costs and the training problems of technicians and managerial staff. As discussed, Hong Kong can no longer compete on cheap labor, and it is not the government's job to alter the market price of labor in a free economy. The Government should focus on the supply and training aspects of the problem.

There are a number of alternatives that can help to increase the labor supply. The most direct one is to import labor from neighboring countries like China, the Philippines, Thailand and Sri Lanka etc. Work permits are granted on contract basis as the present practice of the domestic helpers from the Philippines.

However this method is likely to create more

problems than it can solve. First of all, the labor shortage problem in Hong Kong fluctuate among different industries and in different seasons, it is then very difficult to control the suitability of the workers, imported and the right time to recruit them. Besides, the sudden increase in population will put extensive pressure on the Government's social welfare, housing and education policies. The legal problems regarding the contracts with these workers are not easy to handle. The numerous disputes arising from the contracts of the Philippines' domestic helpers is a good lesson. Furthermore, there is the labor redundancy problem that will occur during economic depressions or seasonal fluctuations in production demand.

The second alternative is to increase the average wage level of the manufacturing sector so as to attract the labor from other industries. It is believed that with more labor protection ordinances and minimum wage specification as in Singapore, workers will flow back to factories. However, as explained, it is not the benefits of the whole economy to establish any direct intervention that will violate the free market mechanism. Wages should be determine by the supply and demand in the market.

In order to solve the labor problem, it is necessary to increase the aggregate supply instead of competing with other industries. When analyzing the labor-force in

Hong Kong, there is a large pool of marginal labor. They are productive labor but are not joining the work-force due to some specific reasons. Married women and early retired workers are the two prime examples. Many women resign from the labor-force after being married. Only 48 percent of the female in Hong Kong is working while 80 percent of male are working. The Hong Kong Government can alter the tax system to encourage them to work again. The recent provision of working-wife tax allowance is a good move in this direction. More effects are anticipated if the Government allows the separation between husband and wife in the calculation of salaries tax. This change in the taxation system can increase the overall labor supply without interfering the free market mechanism.

In addition, the Labor Department should actively assist the overseas investors, who are not familiar with the local community, to recruit workers and maintain a peaceful worker/employer relationship.

Apart from the operatives supply problem, training of technicians and management staff is also one of the serious problems encountered by most overseas investors. At present, technical training is mainly carried out by the five technical institutes, the Vocation Training Council and the two polytechnics. However, except the Polytechnics, the application rates of these institutes are not high. More promotion activities to change the

adverse public perception to blue-collar workers are needed in encouraging more young people to join the manufacturing sector.

The establishment of the third university and three other technical institutes (in Shatin, Tuen Mun and Chaiwan) are likely to strengthen the training capabilities of Hong Kong. More supply of qualified technicians and expertise are expected which can help to push up the technology development capability of Hong Kong.

2. Problem in Land and Building

Factory premise is another problem that affect the overseas investors most seriously. Due to the limited supply of land, high rise factory buildings are extremely popular in Hong Kong. This type of factory premise suits the small-sized factories of the light industries pretty well. But many overseas investors encounter many problems when their production technology requires special demand on the factory premise, e.g. the ceiling height, the floor loading and the special loading and unloading facilities etc. Low rise or even single storey factory building is usually required to suit their needs. To build his own factory, an investor can buy leases of industrial land directly from the Government in public auctions. But they can hardly compete with the private developers there. To improve the situation, the Government has already established two industrial

estates, one in Tai Po and the other in Yuen Long, which provide about 136 hectares of industrial land in total. Industrialists can build their own tailor-made factories in these two estates while the sites are granted at a price around the historical cost of construction. The current premiums for the grant for a period up to 30 June 1997 are only HK\$1,100 per square metre at Tai Po and HK\$900 per square metre at Yuen Long. The cost is considerably lower than that of the neighboring land. However, to be qualified to build factories in the estates, industrialists have to prove that they cannot operate in the normal high rise factory and are introducing new products and process technology to Hong Kong. ~~Severe~~ Severe screening procedure is conducted by the Hong Kong Industrial Estate Corporation, the statutory body founded to manage the estates. These estates are opened to all investors. At present about 50 factories have been operating in the two estates, in which 50 percent are overseas investment. At present, about 60 hectares of land is left, which will be fully occupied within the next three to four years. It will take four to five years to develop another estate. Until now there is still no decision regarding the location of the third estate has been made.

Although the two estates have provided sites for the investors which would otherwise have been difficult to accommodate in Hong Kong. Improvements are needed.

Among the 126 applications approved by the Industrial Estates Corporation so far, only 65 had signed the actual agreements, the remainders are either withdrawn, pending or negotiating. From the interviews with the overseas investors in the Tai Po Industrial Estate, insufficient transportation facilities exaggerates their labor shortage problem. Besides, they are required to provide their own canteens and transportation services, which add to their operating costs. Hence it is not enough to provide just the land, the location of the land and the availability of other supporting services are also required.

Besides establishing more industrial estates, better regional planning can increase the supply of suitable industrial land. In the present practice, land is sold with specification on the usage to private developers at public auctions. It is then possible for the Government to have long-term planning on the location of industrial areas.

3. Infrastructure

No complaints on the communication facilities could be identified from the questionnaire survey. However transportation difficulties have been mentioned, although not very serious. Traffic congestion is very common in Hong Kong especially the way to the Kwai Chung Container Terminal.

Besides, the recent capacities of the International Airport and Container Terminal are anticipated to be over utilized in the near future. They will create problems if no proper expansion plan is carried out well in advance.

4. Industry Support

The Hong Kong Productivity Council is the main government organization responsible for the technical support of the manufacturing industries. On the whole, the Council will only undertake technology development projects that will benefit the whole sector on macro-level. No special assistance will be catered for individual industries. Besides, due to its budget and resources constraints, its service is very limited and at a much smaller scale than that undertaken in other countries. Countries like Singapore have direct sponsorship in R & D, and the establishment of development institutes, tax incentives, loan and loan guarantee programs etc. to encourage its technology advancement. In contrast, the support from Hong Kong Government to the manufacturing sector is minimal.

Recently, the Hong Kong Government has approved three projects relating to this aspect, they are the construction of a main building for the Hong Kong Productivity Council, the establishment of a research center for the plastics industry, and the setup of a fund of HK\$ 0.7 billion which the Council could use to develop

projects for individual industries. However, the total commitment of the Government is only HK\$2 billion.

Although direct interference into the future development of individual firms is not recommended, the assistance in R & D is essential for the competitiveness of the whole manufacturing sector.

5. Pricing Policy

As identified before, Hong Kong is no longer a cheap production centre. Many overseas investors had mentioned the problem in overall cost control in the questionnaire survey. In fact Hong Kong is comparatively disadvantaged on cost when comparing to other developing S. E. Asian countries like Malaysia, Thailand and Sri Lanka.

Of course, Hong Kong could follow suit to provide tax concessions, subsidies, loan facilities etc. to attract overseas investment as the other competitors are doing. However, this type of government policy will definitely do more harm than good and will hamper the free market economy of Hong Kong. Any tax concessions granted should be open to all without discrimination. Furthermore, the taxation system of Hong Kong is very simple, calculating on only the aggregate profits less any losses of all the business owned by a company. Further tax concession is not likely to create much effect.

Instead, it is more beneficial to encourage the manufacturers to increase capital investment. Hence accelerated depreciation tax allowance could be used to achieve this purpose. At present, an initial allowance of 20 percent on expenditure incurred in the construction of industrial buildings and an additional 4 percent annually thereafter. With regard to expenditure on machinery and equipment, the initial allowance is 55 percent.

6. Distribution Channel and Promotional Activities

Apart from coming to Hong Kong directly on his own, an overseas investor considering setting up manufacturing operation in Hong Kong can get assistance from the government channel. Five overseas offices are established (one in Japan, one in F. R. Germany, one in UK and two in the US) to conduct direct selling effort to the interested investors. In addition, regular promotional activities are implemented in the various countries by the promotion officers of the Industry Department, including seminars, exhibition, conference etc.

Although small in number, the overseas offices are already strategically located in where the most advanced countries. The number of offices could be increased quickly through the cooperation with the Hong Kong Trade Development Council which has already 20 offices around the world.

Emphasis should be made on the selling proposition mentioned. From the questionnaire survey, many investors still selected Hong Kong due to the overall cost reduction factor, this unrealistic perception will affect their attitudes towards the operation in Hong Kong. Tremendous promotion efforts are needed to correct this misperception.

9.2 To the Overseas Investors

From the questionnaire survey, it is found that 'Hong Kong's free trade policy', 'lower tax rate', 'better-developed communications and transportation infrastructure', 'favorable geographical location' and 'lower labor cost' were the five most important reasons why the overseas investors chose Hong Kong as their destination of investment. However, with the success of other economies in expanding their low cost output capacity and the increasing wages and prosperity Hong Kong has generated, the cost advantages that Hong Kong enjoyed in the 1970s have undoubtedly diminished over time.

Furthermore, labor related problems - high labor turnover, labor shortage, high labor costs, are the most serious problems the overseas investors have to deal with nowadays. This is also the most important threat to the overseas investors in future. Thus, it is important for the overseas investors to adapt changes in their strategies in

coping with these problems.

During the personal interviews with the overseas manufacturers, it is revealed that they had already tried every methods to recruit and retain their factories' operatives and technicians. However, the effect has been minimal. Many overseas manufacturers now offer competitive salary, bonuses, allowances, training programs, provident fund, free lunch and even picnics. But the tight supply of labor has eliminated the attractiveness of these fringe benefits. Any further extension of these benefits will only add to the production cost and reduce the competitiveness of Hong Kong' exports. Therefore solutions in other forms should be found in order to solve the labor problem.

For those overseas investors sourced from industrialized countries, one of the solutions is moving towards automation. Usually their parent corporations possess more advanced technology know-how. They should accelerate the rate of technology transfer and convert the production process from labor-intensive to capital-intensive wherever possible. Given the skill level of the local operatives and technicians, there should not be much difficulties for the further transfer of technology from the investors' parent corporations. It is hoped that partial or complete automation will reduce the number of technicians and operatives required. This will surely lessen the pressure of labor shortage on the production process of the overseas manufacturers.

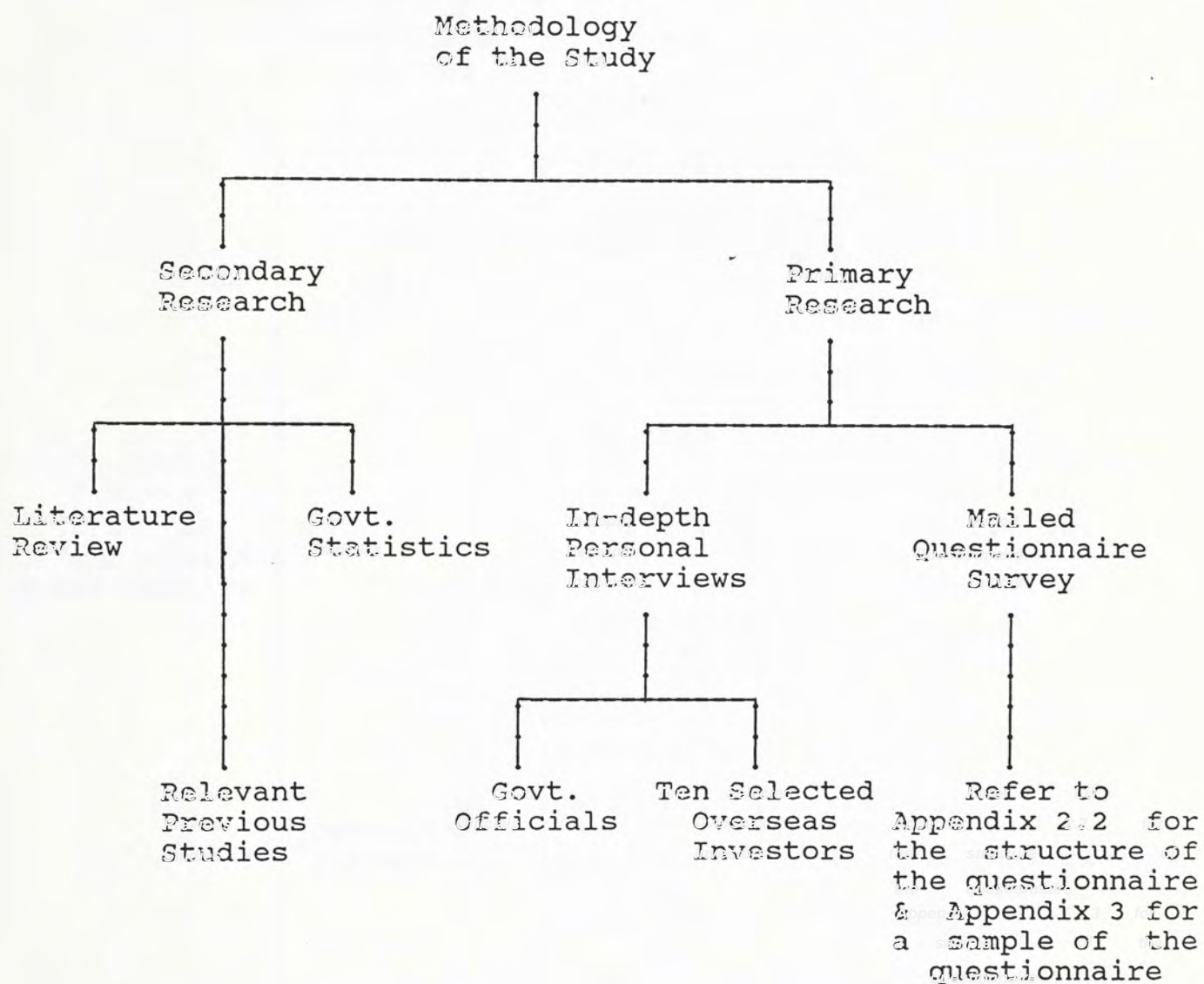
For those manufacturers whose whole or part of the production process cannot be automated, subcontracting to outside factories or setting up assembly plants within the special economic zones of China seems to be a possible solution. From the analysis in Chapter Four, it is found that subcontracting to factories within or outside Hong Kong was increasing in recent years. With subcontracting arrangements, the overseas manufacturers can reduce the demand for operatives and technicians within their own firms. However, the overseas investors must possess a reliable quality control system before they subcontract their production process outside their own factories.

Another alternative for those overseas manufacturers who cannot automate part of or whole of their labor intensive production process is to set up an assembly plant in the special economic zones of China where there is abundant supply of cheap labor. The Hong Kong plant should be responsible for the complex and important processes only. For sure, this will reduce the burden of labor shortage in the local plants. However, to set up a plant in China is not an easy task. This involves substantial effort and time. A complete strategic plan is required before such decision is made. Besides, the training of local managerial staff is crucial because local managers are more competent in the management of plants in China. Under such circumstances, the Hong Kong office should be regarded as a control and servicing center for the plants in china. From

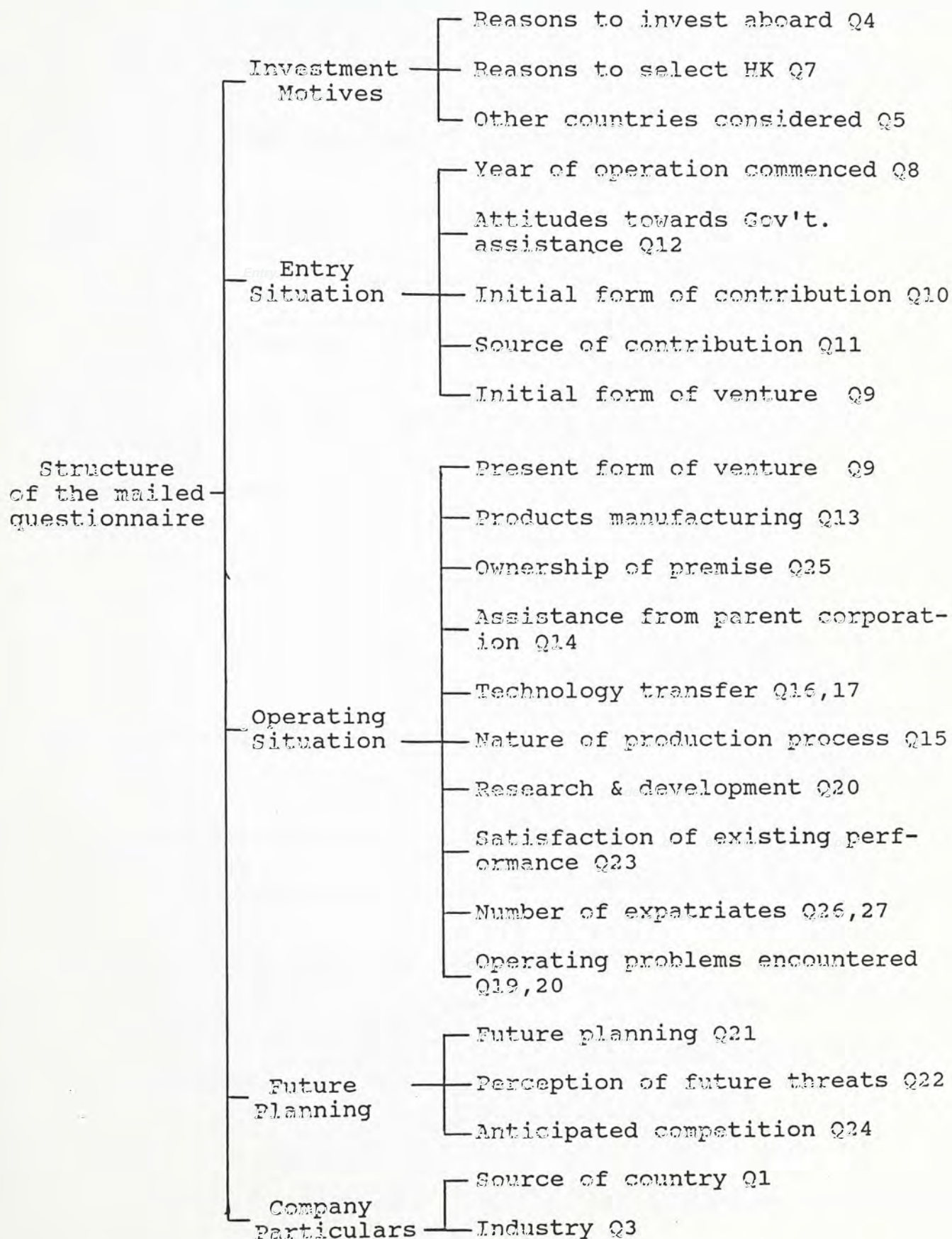
such arrangements, the labor-related problems can be partly solved while the production cost is reduced simultaneously.

From the questionnaire survey, it is also found that certain problems were country specific. Japanese manufacturers are more concerned with the problems of 'language barrier', 'difference in work attitudes' and 'quality control'. This is mainly due to the cultural and perceptual differences between the Japanese expatriates and local staff. In addition, the preference to use many expatriates in Hong Kong's operations also intensified the seriousness of these problems. It seems that local managers are more able to deal with the local staff. A greater degree of localization at the management level can help to solve most of the cultural problems.

Appendix 2.1 Methodology of the Study



Appendix 2.2 Questionnaire Design



FOR THE STUDY ON THE OVERSEAS INVESTMENT IN
THE MANUFACTURING SECTOR OF HONG KONG

Please tick the most appropriate response for each question.

SECTION I GENERAL BACKGROUND INFORMATION

1. Does your company's shareholding contain any overseas investments?

☐ Yes

☐ No (please go to Section VI)

If Yes, what is the composition of your company's shareholding (including both overseas and local)?

Source Country

% of shareholding

total: 100%

2. Is your company involved in the manufacturing sector of HK?

☐ Yes

☐ No (Then what sector is your company belonged to:

_____, and please go to Section VI.)

3. Which industry does your company belong to?

☐ Electronics (excluding
toys, watches & clocks)

☐ Watches & clocks

☐ Non-metallic mineral
products

☐ Electrical products

☐ Textiles & clothing

☐ Food & beverages

☐ Chemical products

☐ Metal products

☐ Others, please specify _____

☐ Printing & publishing

SECTION II Entry Situation

4. Why did your parent corporation seek to invest outside its home country? (please select the THREE most important reasons and then rank among them according to their relative importance from 1=most important to 3=least important.)

- ☐ Access to production factors, please specify what factor _____
- ☐ Overall cost reduction
- ☐ Follow the competitors
- ☐ Follow the customers
- ☐ Bypass trade restrictions
- ☐ Seek local markets
- ☐ Seek new technology know-how
- ☐ Vertical integration
- ☐ Risk diversification
- ☐ Internationalisation of the business
- ☐ Unfavorable domestic investment environment
- ☐ Others, please specify _____

5. What other countries had your parent corporation considered besides Hong Kong? (please specify those in the final list of your evaluation)

(i) _____

(ii) _____

(iii) _____

6. Besides HK and the home country, what other countries have your parent corporation had direct investments?

(i) _____

(ii) _____

(iii) _____

7. What particular reasons prompted your parent corporation to invest in HK as compared with other countries? (please select the FIVE most important reasons and then rank among them according to their relative importance from 1=most important to 5=least important.)

- ☐ HK's free trade policy
- ☐ Minimal intervention of the HK Government
- ☐ Active assistance from the HK Government
- ☐ More stable political environment
- ☐ Lower tax rate
- ☐ No foreign exchange control
- ☐ Better-developed communication & transportation infrastructure
- ☐ More efficient financial services
- ☐ Easier to access financial assistance
- ☐ More advanced industrial technology level
- ☐ Lower labor cost
- ☐ Higher labor productivity
- ☐ More supply of technicians
- ☐ More supporting industries
- ☐ Favorable geographical location
- ☐ More similar culture with parent country
- ☐ Less language barrier
- ☐ Closer political relationship between HK & parent country
- ☐ Existence of local markets
- ☐ Others, please specify _____

8. Your company's full-scale operation in HK was started in the year of _____

9. What were your company's initial and present form of shareholding?

INITIAL

PRESENT

___	___	Wholly-owned investment
___	___	Equity joint venture
___	___	Contractual joint venture
___	___	Licensing/franchising, please specify the nature_____
___	___	Others, please specify_____

10. What was the major contribution from the parent corporation of your major overseas shareholder? (more than one option is possible)

___ Capital

___ Machinery

___ Technological know-how

___ Patent/franchise/license

___ Management skills

___ Others, please specify_____

11. How did the contribution mentioned in the above question is financed?

___ Raised within HK, please specify the instrument_____

___ Raised in other countries

___ Financed by parent corporation

___ Others, please specify _____

12. What is your opinion regarding the assistance provided by the HK government to overseas investors?

very	1	2	3	4	5	6	very
helpful							unhelpful

Please suggest what other assistance should the HK Government provide to overseas investors?

SECTION III OPERATING SITUATION

13. What are the major ranges of products your company manufacture?

PRODUCT RANGE	SIMILARITY WITH THOSE OF PARENT CORPORATION (1=exactly the same; 5=completely different)				
---------------	--	--	--	--	--

a. _____	1	2	3	4	5
b. _____	1	2	3	4	5
c. _____	1	2	3	4	5

14. In the following areas please indicate the degree of assistance your company have obtained from your parent corporation (from 1=very helpful to 5=no help)?

Working capital financing	1	2	3	4	5
Capital investment financing	1	2	3	4	5
Marketing support	1	2	3	4	5
Development of physical technology	1	2	3	4	5
Improvement of management skills	1	2	3	4	5
Supply of raw materials	1	2	3	4	5
Market development	1	2	3	4	5

15. What is the nature of your production process?

- ☐ Manufacturing
- ☐ Assembling
- ☐ OEM (Original Equipment Manufacturing)
- ☐ Others, please specify _____

16. What is the level of your production process technology as compared with that of your industry in HK?

above	1	2	3	4	5	below
average						average

17. What is the source of your production technology?

- ☐ Transferred from parent corporation
- ☐ Developed in HK
- ☐ Imported from other countries
- ☐ Others, please specify _____

18. Does your company has your own R & D facilities?

- ☐ Yes
- ☐ No (please go to the next question)

If yes, what are the major activities done by your R & D department?

	% share of resources
Product packaging modification	_____
Product modification	_____
Product development	_____
Production process improvement	_____
Others, please specify _____	_____
	100%

SECTION IV PROBLEMS ENCOUNTERED WHEN OPERATING IN HK

19. Do your company encounter the following problems after your company's full-scale operation started? (please indicate the degree of seriousness of the following problems from 1=very serious to 5=not a problem.)

Shortage of operatives/craftsmen	1	2	3	4	5
Shortage of technicians	1	2	3	4	5
High labor turnover	1	2	3	4	5
Training of management staff	1	2	3	4	5
Training of technicians	1	2	3	4	5
Transportation problems	1	2	3	4	5
Insufficient communication facilities	1	2	3	4	5
Language barrier	1	2	3	4	5
Differences in work attitudes	1	2	3	4	5
Overall cost control	1	2	3	4	5
Quality control	1	2	3	4	5
Shortage of local finance	1	2	3	4	5
Insufficient supporting industries	1	2	3	4	5
Increasing worldwide protectionism	1	2	3	4	5
HK Government's bureaucracy	1	2	3	4	5

20. What other problems apart from those mentioned above have your company encountered when operating in HK?

SECTION V FUTURE PLANNING

21. What is the plan of your company in two years' time?

- ☐ Withdraw completely
- ☐ Contract capacity
- ☐ No specific plan
- ☐ Expand capacity
- ☐ Others, please specify _____

22. What future trends of HK affect your company most? (please select the THREE trends that affect your company most and then rank them according to their relative effect on your company from 1=greatest to 3=smallest.)

- ☐ Increasing labor costs
- ☐ Decreasing operatives and craftsmen supply
- ☐ Decreasing technicians supply
- ☐ Decreasing managerial staff supply
- ☐ Increasing land/building costs
- ☐ Decreasing availability of suitable land/building
- ☐ Increasing protectionism
- ☐ Increasing internal competition from other local manufacturers
- ☐ Increasing political instability
- ☐ Changing of the pegged exchange rate
- ☐ Others, please specify _____

23. To what extent has the performance of your company met the initial expectations of your parent corporation?

- ☐ Much better than expected
- ☐ Better than expected
- ☐ Same as expected
- ☐ Worse than expected
- ☐ Much worse than expected

24. If you are asked to prepare an investment proposal for your parent corporation, which Asian country would you recommend?

SECTION VI COMPANY PARTICULARS

25. Ownership situation of your factory premise:

___ self-owned

___ leased

___ others, please specify _____

26. Number of employees: a. top management level: _____

b. middle management level: _____

c. operation level: _____

27. Number of expatriates:

a. transfer from parent corporation: _____

b. hire from other places: _____

- END -

THANK YOU VERY MUCH FOR YOUR COOPERATION

If you are interested to have a copy of the result summary of this research, please fill in the followings:

Addressee: _____

Company Name: _____

Address: _____

Table 3

1987 Survey of Overseas Investment in Hong Kong's Manufacturing Industries
No. of Establishments, Cumulative Value of Investment and Employment in 1986
Breakdown by Source Country

Source Country	No. of Establishments			Value of Fixed Assets at Book Value at End of Reporting Period (HK\$'000)	Value of Fixed Assets at Original Cost before Depreciation (HK\$'000)	Working Capital (HK\$'000)	Total Investment at 200% Value at End of Reporting Period (HK\$'000)	Total Investment at Original Cost before Depreciation (HK\$'000)	Employment
	Wholly-owned by Overseas Interests	Joint-venture between HK and Overseas Interests	Total						
USA	103	60	163	1,649,558	2,781,774	5,270,865	6,920,423	8,052,639	38 276
Japan	76	58	134	996,315	2,115,234	1,893,666	2,889,963	4,003,800	27 635
China	4	32	36	2,024,062	2,528,758	452,398	2,476,460	2,981,356	7 272
UK	30	25	55	516,192	632,469	399,739	915,931	1,082,188	13 409
Netherlands	9	2	11	265,189	552,209	166,921	432,110	719,126	4 727
Philippines	1	6	7	248,229	321,873	19,929	268,158	341,802	1 310
Switzerland	18	5	23	66,795	160,898	176,673	263,468	337,571	1 832
Singapore	10	12	22	132,810	216,333	47,297	179,907	264,130	3 332
Australia	11	7	18	115,415	188,416	79,039	190,450	263,451	3 188
F.R. of Germany	17	15	32	54,224	122,584	114,587	168,811	237,171	4 075
Denmark	3	1	4	109,668	180,970	-8,200	101,378	172,680	544
Liberia	4	5	9	51,876	115,557	36,653	86,525	155,219	1 762
Thailand	2	13	15	20,376	51,808	77,984	98,560	129,790	1 439
France	4	4	8	64,824	119,544	5,332	70,162	124,822	842
Virgin Island	1	1	2	*	*	*	*	*	*
Taiwan	2	10	12	35,908	75,164	28,962	64,870	104,126	757
Canada	6	5	11	15,873	28,262	71,956	87,829	100,218	1 276
Bermuda	-	2	2	*	*	*	*	*	*
Malaysia	2	7	9	50,250	65,127	5,099	55,349	70,226	793
Cayman Islands	1	1	2	*	*	*	*	*	*
Panama	3	5	8	8,014	13,091	20,442	28,456	33,533	1 430
Saudi Arabia	-	2	2	*	*	*	*	*	*
New Zealand	1	1	2	*	*	*	*	*	*
Greece	3	-	3	4,565	5,219	7,400	11,965	12,619	101
Italy	-	2	2	*	*	*	*	*	*
Luxembourg	-	1	1	*	*	*	*	*	*
Indonesia	-	9	9	4,893	6,345	2,094	6,987	8,439	156
Austria	1	1	2	*	*	*	*	*	*
Belgium	1	-	1	*	*	*	*	*	*
Israel	1	1	2	*	*	*	*	*	*
India	2	1	3	1,546	2,184	620	2,166	2,804	45
Netherlands Antilles	-	1	1	*	*	*	*	*	*
Sweden	-	1	1	*	*	*	*	*	*
Pakistan	1	-	1	*	*	*	*	*	*
Dubai	-	1	1	*	*	*	*	*	*
Macau	-	1	1	*	*	*	*	*	*
S. Korea	3	-	3	9,336	12,871	-24,950	-15,614	-12,079	275
Total	320 (288)	298 (253)	618 (541)	6,610,431	10,551,808	9,002,429	15,612,860	19,554,237	115 380 (101 435)

Notes :1. Figures in brackets denote the respective actual number of reporting establishments. The discrepancy arises from the fact that some establishments are joint-ventures involving more than one overseas interest.
 2. *denotes suppressed data.

Source: Table 3. Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987. Industry Department, Hong Kong Government.

Appendix 3.2 Rank Orders of the Twenty Investment Factors

<u>Investment Factors</u>	<u>Importance Ranking</u>	<u>Favorability Ranking</u>
Production Factors :		
Labor supply, cost & productivity	1	19
Cost of land, office & factory space	2	20
Availability of managerial skills	3	10
Raw materials supplies	5	17
Stability factors :		
Currency stability	4	18
Labor-management relationship	6	11
Domestic economic stability	9	14
Political stability	10	7
Incentive Factors :		
Corporate taxes	7.5	2.5
Business laws and regulations	11	4.5
Exchange controls	12.5	1
Gov't. policy towards foreign investment	14	9
Marketing Factors :		
Trade restrictions on imports and exports	7.5	2.5
Local market potential	15	16
Geographical location	17	8
Indirect Factors :		
Financial maturity	12.5	6
Gov't. integrity and efficiency in administrative situation	16	15
General attitude towards foreigners and foreign companies	18	4.5
Social overhead facilities	19	13
Education standard of population	20	12

Source : Summary of the Findings by Hung (1979)

1987 Survey of Overseas Investment in Hong Kong's Manufacturing Industries
Sales in 1986
Breakdown by Major Market

Amount in HK\$ Million

Major Market	Total Sales	% of Total
USA	14,341	32.5
China	2,070	4.7
F.R. of Germany	1,868	4.2
Singapore	1,460	3.3
Japan	1,456	3.3
UK	1,434	3.3
Canada	878	2.0
Netherlands	768	1.7
Australia	611	1.4
France	483	1.1
Others	4,490	10.2
All Overseas Markets	29,859	67.7
Local	14,236	32.3
Total	44,095	100.0

Source: Table 9, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987. Industry Department, Hong Kong Government.

Contribution from and Co-operation with Overseas Owners/Partners	Country									
	All		USA		Japan		China		UK	
	No. of Establish-ments	% of Total	No. of Establish-ments	% of Total	No. of Establish-ments	% of Total	No. of Establish-ments	% of Total	No. of Establish-ments	% of Total
With licensing arrangement with and/or technical assistance/information provided by overseas owners/partners	368	68.0	134	82.2	108	80.6	7	19.4	31	56.4
Licensing arrangement to use their:-										
1. Brand name	200	37.0	79	48.5	60	44.8	1	2.8	17	30.9
2. Production technology	183	33.8	71	43.6	61	45.5	2	5.6	11	20.0
3. Production process	144	26.6	51	31.3	49	36.6	2	5.6	10	18.2
Technical assistance/information provided :-										
1. Installation of plants and machinery	166	30.7	55	33.7	62	46.3	3	8.3	14	25.5
2. Operation of plants and machinery	126	23.3	41	25.2	48	35.8	3	8.3	8	14.5
3. Maintenance of plants and machinery	93	17.2	30	18.4	38	28.4	3	8.3	6	10.9
4. Product design and development	237	43.8	92	56.4	67	50.0	3	8.3	23	41.8
5. Production technique	196	36.2	72	44.2	64	47.8	4	11.1	16	29.1
6. Production processes	160	29.6	56	34.4	51	38.1	4	11.1	13	23.6
7. Quality control	158	29.2	61	37.4	47	35.1	4	11.1	11	20.0
8. Management technique	136	25.1	50	30.7	42	31.3	3	8.3	12	21.8
9. Sales and marketing	212	39.2	87	53.4	52	38.8	3	8.3	21	38.2
10. Others	10	1.8	3	1.8	2	1.5	1	2.8	1	1.8

Note : Total number of reporting establishments: 541		Of which, USA	: 163
		Japan	: 134
		China	: 36
		UK	: 55

Source: Table 19, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987.
Source: Industry Department, Hong Kong Government.

1987 Survey of Overseas Investment in Hong Kong's Manufacturing Industries
 No. of Establishments having Self-owned Factory Premises in 1986
 Breakdown by Source Country

Source Country	Total No. of Establishments (A)	No. of Establishments Having Self-owned Premises (B)	$\frac{(B)}{(A)} \times 100\%$
USA	163	56	34.4
Japan	134	51	38.1
China	36	16	44.4
UK	55	12	21.8
Netherlands	11	*	*
Philippines	7	3	42.9
Switzerland	23	9	39.1
Singapore	22	12	54.5
Australia	18	6	33.3
F.R. of Germany	32	6	18.8
Denmark	4	*	*
Liberia	9	4	44.4
Thailand	15	5	33.3
France	8	4	50.0
Virgin Island	2	*	*
Taiwan	12	8	66.7
Canada	11	3	27.3
Bermuda	2	*	*
Malaysia	9	4	44.4
Cayman Islands	2	*	*
Panama	8	4	50.0
Saudi Arabia	2	*	*
New Zealand	2	*	*
Greece	3	*	*
Italy	2	*	*
Luxembourg	1	*	*
Indonesia	9	6	66.7
Austria	2	*	*
Belgium	1	*	*
Israel	2	*	*
India	3	*	*
Netherlands Antilles	1	*	*
Sweden	1	*	*
Pakistan	1	*	*
Dubai	1	*	*
Macao	1	*	*
S. Korea	3	*	*
Total	618 (541)	233 (192)	37.7 (35.5)

Notes : 1. Figures in brackets denote the respective actual number of reporting establishments. The discrepancy arises from the fact that some establishments were joint-ventures involving more than one overseas interest.

2. *denotes suppressed data.

Source: Table 5, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987. Industry Department, Hong Kong Government.

1987 Survey of Overseas Investment in Hong Kong's Manufacturing Industries
 No. of Establishments having Self-owned Factory Premises in 1986
 Breakdown by Industry

Industry	Total No. of Establishments (A)	No. of Establishments Having Self-owned Premises (B)	(B) — X 100% (A)
Electronics (excluding toys, watches and clocks)	124	36	29.0
Non-metallic mineral products	8	5	62.5
Textiles and clothing of which:	113	35	31.0
Clothing	79	23	29.1
Yarns and fabrics	26	9	34.6
Misc. made-ups	8	3	37.5
Chemical products	28	13	46.4
Watches and clocks	29	8	27.6
Electrical products	35	13	37.1
Food and beverages	19	15	78.9
Metal products	37	15	40.5
Printing and publishing	20	13	65.0
Tobacco	3	*	*
Toys	18	4	22.2
Plastic products (excluding toys)	24	10	41.7
Non-electrical machinery	8	3	37.5
Photographic and optical goods	14	4	28.6
Jade and jewellery	10	2	20.0
Basic metal	4	2	50.0
Furniture and fixtures	5	*	*
Paper products	9	2	22.2
Leather products	13	4	30.8
Transport equipment	4	*	*
Miscellaneous	16	5	31.3
Total	541	192	35.5

Note : *denotes suppressed data.

Source: Table 6, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987. Industry Department, Hong Kong Government.

Table 25

1987 Survey of Overseas Investment in Hong Kong's Manufacturing Industries

Business Situation

Period	Views on Business Situation							
	Uncertain		Not Satisfactory		Satisfactory		Very Satisfactory	
	No. of Establishments	% of Total	No. of Establishments	% of Total	No. of Establishments	% of Total	No. of Establishments	% of Total
1986	Not Applicable	-	163	30.1	357	66.0	21	3.9
1987	44	8.1	104	19.2	347	64.1	46	8.5
Coming 5 years	274	50.6	23	4.3	219	40.5	25	4.6

Note : The total number of reporting establishments is 541.

Source: Table 25, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987. Industry Department, Hong Kong Government.

1987 Survey of Overseas Investment in Hong Kong's Manufacturing Industries
Opinion on Hong Kong for Manufacturing Investment

Table 28

Appendix 5.2

Manufacturing Investment Environment	Unfavourable	Favourable
Hong Kong as a whole	37	504

Manufacturing Investment Environment	Very Unfavourable	Quite Unfavourable	Neutral	Quite Favourable	Very Favourable
Government policy:-					
1. As a whole	4	16	220	251	50
2. Free trade/enterprise	1	5	102	234	199
3. Free port	3	5	55	207	271
4. No foreign exchange control	2	8	82	192	267
5. Low tax rate	-	2	84	257	198
6. No special fiscal incentive	20	79	286	107	47
7. Minimum government red tape	3	34	226	200	78
8. Simple import & export procedure	4	13	119	263	142
Communication and transport facilities:-					
1. As a whole	1	3	85	291	161
2. International communication	1	1	48	223	268
3. International transport	1	3	58	252	227
4. Shipping & cargo handling	3	9	70	288	171
5. Internal transport	6	35	152	259	89
Banking and financial facilities:-					
1. As a whole	1	3	117	293	127
2. Banking/insurance system	1	10	112	301	117
3. Free money market	1	3	100	242	195
4. Availability and cost of investment funds	4	14	169	261	93
Land and buildings:-					
1. As a whole	30	153	223	125	10
2. Industrial - Availability	27	158	204	143	9
3. Industrial - Costs	69	212	175	83	2
4. Commercial - Availability and costs	50	198	221	80	2

/....

Table 28

Manufacturing Investment Environment	Very Unfavourable	Quite Unfavourable	Neutral	Quite Favourable	Very Favourable
Manpower :-					
1. As a whole	29	148	217	139	8
2. Supply - operatives/craftsmen	63	194	156	121	7
3. Supply - technical staff	31	179	181	143	7
4. Supply - management staff	13	79	233	197	19
5. Skill & productivity - operatives/craftsmen	19	105	188	211	18
6. Skill & productivity - technical staff	13	82	217	217	12
7. Skill & productivity - management staff	11	61	209	243	17
8. Costs - operatives/craftsmen	39	160	229	104	9
9. Costs - technical/management staff	19	136	263	118	5
10. Turnover - operatives/craftsmen	84	215	181	58	3
11. Turnover - technical/management staff	28	149	254	107	3
12. Employer/labour relations	12	45	252	201	24
Supporting industries:-					
1. As a whole	7	55	280	181	18
2. Availability of materials and parts	19	74	221	206	21
3. Range of supporting industries	10	67	268	182	14
4. Quality of supporting industries	8	77	273	173	10
5. Industrial technical support facilities	6	90	280	154	11
Others:-					
1. Geographical location	3	9	156	297	76
2. Access to world market	2	12	125	289	113
3. Generalised scheme of preferences offered to Hong Kong	4	38	265	192	42
4. Non-discrimination against overseas company	-	9	218	220	94
5. Costs of maintaining expatriates	38	129	307	62	5

Note : The total number of reporting establishments is 541.

Source: Table 28, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987. Industry Department, Hong Kong Government.

Appendix 6.1 Business Problems of Overseas Investors (N=541)

Problem	% of Total Establishments		
	Serious Problem	Slight Problem	No Problem
Labor :			
High labor turnover	40	38	22
Shortage of operatives/craftsmen	39	38	23
High labor costs	32	47	21
Shortage of technicians	22	42	36
Raw materials, parts/components :			
High costs	30	45	25
Inadequate supply	11	32	57
Market competition :			
Competition from local producer	20	40	40
Competition from overseas producer	19	43	38
Poor market situation	10	35	55
Factory premise :			
High costs	20	33	47
Difficult to find suitable premise with special requirements	14	25	61
Supporting industries :			
Electroplating	2	11	87
Galvanising	-	5	95
Heat treatment	3	6	91
Precision moulding	5	8	87
Dies and mould-making	3	15	82
Forging	-	5	95
Die-casting	1	6	93
Precision metal stamping	1	6	93
Others	1	1	98

Note: A total of 11 establishments reported to have encountered none of the above business problems.

Source: Table 26, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1987, Industry Department, Hong Kong Government.

Appendix 6.2 Ranking of the Operating Problems by Region

Operating Problem \ Ranking	Region						
	US	Japan	UK	EEC	Asian-Pacific	China	
Shortage of operatives	1 (2.8)	2 (2.5)	1 (2.5)	1 (2.6)	2.5 (2.5)	1 (4)	
Shortage of technicians	2.5 (2.7)	3 (2.4)	2.5 (2.3)	2 (2.5)	1 (2.8)	5 (2)	
High labor turnover	2.5 (2.8)	1 (2.6)	7 (1.3)	3 (2)	6 (2)	2 (3)	
Training of technicians	5.5 (1.6)	4.5 (1.9)	4.5 (1.8)	4 (1.9)	8 (1.3)	10.5 (1)	
Training of management staff	4 (1.8)	6.5 (1.7)	2.5 (2.3)	5 (1.6)	9.5 (0.8)	10.5 (1)	
Quality control	5.5 (1.6)	6.5 (1.7)	9.5 (1)	7 (1.2)	7 (1.8)	5 (2.5)	
Differences in work attitudes	10.5 (1)	4.5 (1.9)	9.5 (1)	13 (0.6)	14.5 (0)	5 (2)	
Overall cost control	10.5 (1)	8 (1.6)	11 (0.8)	9.5 (1)	9.5 (0.8)	5 (2)	
Insufficient supporting ind.	9 (1.1)	10 (1.2)	14.5 (0.3)	6 (1.4)	4.5 (2.3)	10.5 (1)	
Transportation problem	12.5 (0.8)	11 (1)	7.5 (1.3)	8 (1.1)	4.5 (2.3)	14.5 (0)	
Language barrier	14 (0.6)	9 (1.3)	7 (1.3)	9.5 (1)	11 (0.5)	10.5 (1)	
Increasing protectionism	7 (1.4)	13 (0.7)	4.5 (1.8)	11 (0.9)	12.5 (0.3)	5 (2)	
HK Government's bureaucracy	8 (1.2)	12 (0.8)	12.5 (0.5)	12 (0.8)	2.5 (2.5)	10.5 (1)	
Insufficient communication facilities	15 (0.5)	14 (0.5)	12.5 (0.5)	14 (0.3)	14.5 (0)	14.5 (0)	
Shortage of local finance	12.5 (0.8)	15 (0.4)	14.5 (0.3)	15 (0.1)	12.5 (0.3)	10.5 (1)	

Note. The figures in brackets denote for the mean scores of the operating problems from the scale 0=No problems to 4=Very Serious Problem.

Appendix 6.3 Ranking of Operating Problems by Industry

Operating Problem \ Ranking	Industry									
	Electronics	Non-metallic Mineral ppts	Textiles & Clothing	Chemical ppts	Watches & Clocks	Electrical ppts	Food & Beverages	Metal ppts	Printing & Publishing	
Shortage of operatives	1 (3.1)	9 (1.3)	3.5 (2.3)	2.5 (1.8)	2 (2.7)	1 (3.3)	1 (3)	1.5 (3.2)	4.5 (2.3)	
Shortage of technicians	3 (2.5)	5 (1.7)	1 (2.7)	1 (2.2)	1 (3)	3 (2.7)	2 (2.5)	1.5 (3.2)	4.5 (2.3)	
High labor turnover	2 (2.85)	5 (1.7)	5.5 (2.2)	6 (1.5)	3.5 (2.3)	2 (3.1)	3 (2.3)	3 (2.2)	4.5 (2.3)	
Training of technicians	5 (1.6)	9 (1.3)	5.5 (2.2)	2.5 (1.8)	3.5 (2.3)	5 (2)	4 (1.8)	4 (1.7)	4.5 (2.3)	
Training of mgt. staff	4 (1.7)	2 (2.3)	2 (2.5)	6 (1.5)	10 (1)	9.5 (1.4)	5 (1.5)	6.5 (1.3)	4.5 (2.3)	
Quality control	6.5 (1.3)	9 (1.3)	7 (1.5)	8.5 (1.4)	5 (1.7)	6.5 (1.9)	7.5 (1.3)	5 (1.5)	1 (1.7)	
Differ. in work attitude	8 (1.1)	12 (1)	10 (0.8)	10 (1.3)	6.5 (1.3)	6.5 (1.9)	11.5 (0.8)	12.5 (0.7)	4.5 (2.3)	
Overall cost control	10 (0.9)	5 (1.7)	8 (1.2)	11.5 (1.2)	6.5 (1.3)	8 (1.7)	11.5 (0.8)	11 (0.8)	12 (1)	
Insufficient supporting industries	6.5 (1.3)	5 (1.7)	15 (0.3)	4 (1.6)	10 (1)	4 (2.1)	14 (0.3)	8.5 (1.2)	12 (1)	
Transportation problem	10 (0.9)	5 (1.7)	12.5 (0.7)	6 (1.5)	13.5 (0.7)	11 (0.9)	7.5 (1.3)	8.5 (1.2)	8.5 (2)	
Language barrier	13 (0.6)	12 (1)	12.5 (0.7)	11.5 (1.2)	10 (1)	9.5 (1.4)	7.5 (1.4)	12.5 (0.7)	8.5 (2)	
Increasing protectionism	10 (0.9)	12 (1)	3.5 (2.3)	13 (0.8)	10 (1)	15 (0)	10 (1)	6.5 (1.3)	12 (1)	
HK Gov't's bureaucracy	12 (0.8)	1 (3)	10 (0.8)	8.5 (1.4)	10 (1)	13.5 (0.4)	7.5 (1.3)	10 (1)	12 (1)	
Insufficient communication facilities	15 (0.2)	14 (0.7)	14 (0.5)	14 (0.3)	13.5 (0.7)	12 (0.6)	14 (0.3)	15 (0.2)	12 (1)	
Shortage of local finance	14 (0.3)	15 (0.3)	10 (0.8)	15 (0)	15 (0)	13.5 (0.4)	14 (0.3)	14 (0.5)	15 (0.3)	

(Cont.)

Note. The figures in brackets denote for the mean scores of the operating problems from the scale of 0=No problem to 4=Very serious Problem.

Source : Questionnaire Survey

Appendix 6.4 Ranking of Operating Problems by the Ratio of the Number of Expatriates Over Top Management

Ranking Operating Problem	Ratio of the Number of Expatriates Over Top Management							
	0	0.01 -0.5	0.5 -1.0	1.01 -1.5	1.51 -2.0	2.01 -3.0	3.01 -4.0	4.01 -20
Shortage of operatives	1 (2.6)	1 (2.7)	2 (2.2)	1.5 (2.6)	2 (3.3)	1 (4)	1.5 (4)	1.5 (4)
Shortage of technicians	3 (2.3)	2 (2.6)	1 (2.4)	3.5 (2.4)	2 (3.3)	5 (2)	8.5 (1)	11.5 (1)
High labor turnover	2 (2.5)	3 (2.2)	3 (2)	1.5 (2.6)	2 (3.3)	2 (3)	1.5 (4)	4 (3)
Training of technicians	5 (1.6)	5 (1.4)	4.5 (1.8)	3.5 (2.4)	4.5 (2.7)	10.5 (1)	5 (2)	1.5 (4)
Training of mgt. staff	6 (1.4)	4 (1.7)	4.5 (1.8)	6.5 (1.8)	9 (1)	10.5 (1)	13 (0)	4 (3)
Quality control	8 (1.1)	6.5 (1.1)	6.5 (1.6)	5 (2.2)	4.5 (2.7)	5 (2)	5 (2)	7 (2)
Difference in work attitude	11.5 (0.8)	10 (0.9)	8 (1.4)	8.5 (1.6)	12 (0.7)	5 (2)	3 (3)	4 (3)
Overall cost control	10 (0.9)	6.5 (1.1)	10 (1.2)	8.5 (1.6)	9 (1)	5 (2)	8.5 (1)	7 (2)
Insufficient supporting industries	4 (2.1)	11.5 (0.7)	9 (1.3)	10.5 (1.2)	10 (1)	10.5 (1)	13 (0)	11.5 (1)
Transportation problems	7 (1.3)	11.5 (0.7)	6.5 (1.6)	13 (0.8)	13 (0.3)	14.5 (0)	8.5 (1)	7 (2)
Language barrier	13 (0.6)	8.5 (1)	11 (1.1)	12 (1)	9 (1)	10.5 (1)	8.5 (1)	11.5 (1)
Increasing protectionism	11.5 (0.8)	8.5 (1)	12.5 (1)	10.5 (1.2)	9 (1)	5 (2)	13 (0)	15 (0)
HK gov't's bureaucracy	9 (1)	13 (0.6)	12.5 (1)	6.5 (1.8)	6 (2)	10.5 (1)	13 (0)	11.5 (1.2)
Insufficient communication facilities	15 (0.3)	14.5 (0.3)	14 (0.5)	15 (0.4)	14.5 (0)	14.5 (0)	5 (2)	11.5 (1)
Shortage of local finance	14 (0.5)	14.5 (0.3)	15 (0.4)	14 (0.6)	14.5 (0)	10.5 (0)	13 (0)	11.5 (1)

(Cont.)

Note. The figures in brackets denote for the mean scores of the operating problems from the scale of 0=No problem to 4=Very serious problem.

Source : Questionnaire Survey

Appendix 6.5 Ranking of Operating Problems by Year of Commencement

Operating Problem \ Ranking	Year of Commencement						
	1910 -1959	1960 -1964	1965 -1969	1970 -1974	1975 -1979	1980 -1984	1985 -1989
Shortage of operatives	1 (3.3)	1 (3.3)	3 (2)	1 (3.1)	1.5 (2.3)	3 (2.4)	2 (2.9)
Shortage of technicians	3 (2.3)	2 (3)	1.5 (2.2)	2 (3)	3 (2.2)	1 (2.8)	3 (2.4)
High labor turnover	2 (2.7)	4 (2)	1.5 (2.2)	3 (2.4)	1.5 (2.3)	5.5 (1.8)	1 (3)
Training of technicians	5 (1)	4 (2)	5 (1.3)	4.5 (2.1)	5.5 (1.2)	2 (2.6)	9 (1.6)
Training of mgt. staff	4 (1.7)	4 (2)	4 (1.5)	4.5 (2.1)	7.5 (1.1)	7.5 (1.4)	7.5 (1.7)
Quality control	13 (0)	10.5 (1)	8 (1)	7 (1.6)	7.5 (1.1)	4 (2)	6 (1.9)
Differ. in work attitude	13 (0)	10.5 (1.2)	6.5 (1.2)	11 (1)	11 (0.8)	11.5 (1)	4.5 (2.1)
Overall cost control	13 (0)	10.5 (0.8)	10 (0.8)	9 (1.2)	9.5 (1)	7.5 (1.4)	7.5 (1.7)
Insufficient supporting industries	8.5 (0.3)	10.5 (1.2)	6.5 (1.2)	12 (0.9)	4 (1.3)	5.5 (1.8)	10.5 (1.3)
Transportation problem	6 (0.7)	10 (1)	14 (0.5)	10 (1.1)	5.5 (1.2)	10 (1.1)	10.5 (1.3)
Language barrier	13 (0)	10.5 (0.8)	10 (0.8)	13 (0.8)	15 (0.5)	11.5 (1)	4.5 (2.1)
Increasing protectionism	8.5 (0.3)	6.5 (1.3)	12.5 (0.8)	6 (2)	9.5 (1)	13 (0.7)	13 (0.7)
HK Gov't's bureaucracy	8.5 (0.3)	6.5 (1.3)	10 (0.8)	8 (1.4)	12 (0.7)	9 (1.2)	12 (1.1)
Insufficient communication facilities	8.5 (0.3)	14.5 (0.3)	15 (0.2)	14 (0.6)	13.5 (0.6)	15 (0.2)	15 (0.1)
Shortage of local finance	13 (0)	14.5 (0.3)	12.5 (0.8)	15 (0.3)	13.5 (0.6)	14 (0.3)	14 (0.3)

(Cont.)

Note. The figures in brackets denote for the mean scores of the operating problems from the scale of 0=No problem to 4=Very serious Problem.

Source : Questionnaire Survey

Appendix 7.1 Satisfaction Level of the Performance by Region

Frequency Comparing with Expectation	Region					
	US	China	UK	EEC	Japan	Asian- Pacific
Much better	6 (43)	-	-	2 (18)	3 (17)	1 (25)
Better	6 (43)	-	3 (75)	5 (45)	7 (39)	3 (75)
Same	2 (14)	1 (100)	1 (25)	3 (27)	7 (39)	-
Worse	-	-	-	1 (10)	1 (5)	-
Much worse	-	-	-	-	-	-
Total	14	1	4	11	18	4

Note. The figures in brackets denote the percentage of the respondents in that region. The actual number of reporting establishments is 51. The discrepancy is due to the fact that some establishments contain interests from more than one country.

Source : Questionnaire Survey

Appendix 7.2 Satisfaction Level of the Performance by Industry

Frequency Comparing with Expectation	Industry									
	Electronics	Non-Metallic Mineral pds	Textiles & Clothing	Chemical pds	Watches & Clocks	Electrical pds	Food & Beverages	Metal pds	Printing & Publishing	Others
Much better	3 (25)	1 (33)	1 (17)	1 (17)	1 (33)	-	-	3 (50)	1 (33)	1 (33)
Better	5 (42)	2 (67)	4 (66)	2 (33)	1 (33)	1 (14)	3 (75)	2 (33)	2 (67)	1 (33)
Same	4 (33)	-	1 (17)	2 (33)	1 (33)	5 (72)	1 (25)	-	-	1 (33)
Worse	-	-	-	1 (17)	-	1 (14)	-	1 (17)	-	-
Much worse	-	-	-	-	-	-	-	-	-	-
Total	12	3	6	6	3	7	4	6	3	3

Note. The figures in brackets denote the percentage of the respondents in that industry. The actual number of reporting establishments is 51. The discrepancy is due to the fact that some establishments are engaging in more than one industry.

Source : Questionnaire Survey

Appendix 7.3 Future Business Plan by Region

Frequency Future Business Plan	Region					
	US	China	UK	EEC	Japan	Asian-Pacific
Withdraw Completely	-	-	-	1(9)	-	-
Contract Capacity	2(15)	-	-	1(9)	-	-
No Specific Plan	4(23)	-	1(25)	-	5(24)	1(25)
Expand Capacity	8(62)	1(100)	3(75)	9(82)	13(76)	3(75)
Total	14	1	4	11	18	4

Note. The figures in brackets denote the percentage of the respondents in that region. The actual number of reporting establishments is 51. The discrepancy is due to the fact that some establishments contain interests from more than one country.

Source : Questionnaire Survey

Appendix 7.4 Future Business Plan by Industry

Frequency Future Business Plan	Industry									
	Elect- ronics	Non- metallic Mineral	Textiles & Cloth- ing	Chemical pdts	Watches & Clocks	Electrical pdts	Food & Beverages	Metal pdts	Printing & Publish- ing	Others
Withdraw Completely	-	-	-	-	1- (33)	-	-	-	-	-
Contract Capacity	-	-	1 (17)	1 (17)	-	-	-	-	-	1 (33)
No Specific Plan	4 (27)	-	3 (50)	2 (33)	-	1 (14)	-	-	-	1 (33)
Expand Capacity	8 (73)	3 (100)	2 (33)	3 (50)	2 (67)	6 (86)	4 (100)	6 (100)	3 (100)	1 (33)
Total	12	3	6	6	3	7	4	6	3	3

Note. The figures in brackets denote the percentage of the respondents in that industry. The actual number of reporting establishments is 51. The discrepancy is due to the fact that some establishments are engaging in more than one industry.

Source : Questionnaire Survey

Appendix 7.5 Seriousness of the Anticipated Problems by Region

Anticipated Problem \ Frequency	Region					
	US	China	UK	EEC	Japan	Asian-Pacific
Increasing labor costs	10 (2.3)	1 (2)	3 (3)	3 (2.25)	16 (2.31)	2 (2.25)
Decreasing operatives supply	7 (2)	1 (2)	2 (2)	5 (2.4)	9 (2.22)	2 (2.25)
Increasing land/buildings costs	3 (2)	0 (2.33)	0	3 (2.33)	7 (2)	2 (1.5)
Decreasing technicians supply	4 (1.25)	0 (1.5)	2 (1.5)	2 (1.5)	3 (1)	1 (3)
Changing of the pegged exch. rate	3 (2)	1 (2)	1 (1)	1 (1)	6 (1)	0
Increasing political instability	5 (1.4)	0 (1)	1 (1)	2 (2)	3 (1.67)	1 (2)
Increasing internal competition from other local manufacturers	3 (2.67)	0	0 (2)	3 (2)	5 (1.8)	0
Decreasing managerial staff supply	3 (2.67)	0 (1)	1 (1)	3 (1.67)	2 (2)	1 (1)
Decreasing availability of suitable land/buildings	1 (1)	0 (1.75)	0	4 (1.75)	2 (1)	1 (3)
Increasing worldwide protectionism	2 (2.5)	0 (2)	1 (2)	1 (2)	0	0

Note. The figures in brackets denote the average point given by the respondents in that region.

Source : Questionnaire Survey

Appendix 7.6 Seriousness of the Anticipated Problems by Industry

Frequency Anticipated Problem	Industry									
	Elect- ronics	Non- metallic Mineral pds	Textiles & Clothing	Chemical pds	Watches & Clocks	Elect- rical pds	Food & Bever- ages	Metal pds	Printing & Publish- ing	
Increasing labor costs	10 (2.2)	3 (1.67)	4 (2.5)	3 (2.33)	3 (2.67)	6 (1.83)	3 (2)	4 (2.25)	3 (2.67)	
Increasing operatives supply	7 (2.14)	0 (2)	2 (2)	2 (2)	2 (2.25)	4 (2.25)	3 (3)	1 (1)	3 (1.67)	
Increasing land/bldgs costs	4 (2)	1 (2)	0 (2)	4 (2)	1 (1)	1 (2)	3 (1.67)	1 (3)	1 (3)	
Decreasing technicians supply	3 (1.33)	1 (2)	0 (2)	1 (2)	0 (1)	1 (1)	1 (1)	3 (1.67)	1 (1)	
Changing of the pegged exch. rate	2 (2)	0 (1)	1 (1)	1 (1)	0 (1.6)	5 (1.6)	0 (2)	2 (2)	0	
Increasing political instability	3 (1.33)	0 (1.1020)	4 (1.75)	1 (3)	1 (1)	1 (1)	0 (1.5)	2 (1.5)	0	
Increasing competition from local manufacturer	3 (2)	3 (2)	0 (2)	3 (2)	0 (2)	0 (3)	0	2 (3)	1 (1)	
Decreasing managerial staff supply	3 (3)	0 (2)	1 (2)	1 (1)	1 (2)	2 (2)	0 (1)	1 (1)	0	
Decreasing availability of suitable land/bldgs.	1 (1)	0 (1)	1 (1)	2 (2.5)	1 (1)	1 (2)	1 (2)	1 (2)	0	
Increasing worldwide protection- ism	1 (2)	0 (1.67)	3 (1.67)	0	0	0	0	0	0	

(Cont.)

Note. The figures in brackets denote the average point given by the respondents in that industry.

Source : Questionnaire Survey

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